

AR78



Ridley Annual Report 2005



Ridley Inc. Profile

Ridley Inc. is one of the largest commercial animal nutrition businesses in North America, serving customers mainly in the United States and Canada. Ridley manufactures and/or distributes a full range of animal nutrition products including formulated feeds, premixes, low moisture blocks, feed supplements, animal health products, feed ingredients, animal care and livestock handling equipment.

Ridley's customers include livestock breeders and growers who produce meat, dairy and poultry products that are processed into consumer food products, as well as consumers who own or breed animals for recreational or companionship purposes. We create value for our customers by helping them be more profitable in their own businesses through applied animal science and production technology.

The Ridley Feed Operations (RFO) segment of our business consists of full-line feed mills operating in the United States and Canada, producing and marketing products for the core animal nutrition market, and the Ridley Feed Ingredients plant in Mendota, Illinois, that produces micro feed ingredients, vitamin and trace mineral premixes and feed additives. RFO's reported results encompass 13 full-line plants in Canada, 22 full-line plants in the U.S., and the Ridley Feed Ingredients plant. RFO plants derive most of their business by manufacturing and marketing a broad range of complete feeds and premixes to meat, milk and egg producers located mostly in the upper midwestern U.S. and prairie provinces of Canada.

The Ridley Nutrition Solutions (RNS) segment consists of the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business. The low moisture block operations have four production facilities and trade as Ridley Block Operations (RBO). The Sweetlix feed supplements business was acquired in July 2004 and operates from three production facilities, and the equine business consists of McCauley Bros., Inc. in Versailles, Kentucky, and the Ridley Equine Center that opened in May 2005 in Chambersburg, Pennsylvania.

Ridley's products are marketed under a number of highly regarded trade names, including Hubbard Feeds, Feed-Rite, Wayne Feeds, Ridley Block Operations, Ridley Feed Ingredients, Ridley Specialty Products, Daco Western Canada, Farmix, McCauley's®, CRYSTALYX® and SWEETLIX®.

Ridley's strategy for increasing shareholder value is to build on its leadership position in commercial animal nutrition markets, and to develop growth opportunities that meet its profitability and investment return objectives as a high-quality, efficient producer.

Ridley Corporation Limited, Australia's largest livestock feed manufacturer, owns approximately 69 percent of Ridley Inc.'s outstanding shares.

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Operating Highlights

Safety First

In fiscal 2005 Ridley undertook a major initiative to improve its safety performance. Outside consultants were engaged to survey and evaluate the Company's safety attitudes, policies, procedures and facilities. Based on the survey results, Ridley is implementing a comprehensive new safety system, "Safety First," throughout the Company to enhance employees' safety awareness, safety practices and reporting systems.

Sweetlix Acquired

Ridley acquired the assets and livestock feed supplement business of Sweetlix, LLC for US\$17.6 million early in the 2005 fiscal year. Sweetlix includes three manufacturing facilities in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas. The Sweetlix® line of feed supplement blocks enhances Ridley's sales presence and distribution system in the southern and eastern U.S., and makes Ridley one of the largest manufacturers of free-choice feed supplement blocks in North America. This acquisition has been integrated into Ridley and met all expectations in the first year under Ridley management.

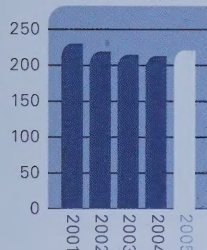
Beloit, Kansas Feed Business Acquired

In November 2004, Ridley acquired the assets and business of The Farmway Co-op, Inc.'s feed business in Beloit, Kansas, and will lease the facility and production equipment for five years with an option to renew. The operation had previously been a joint venture. The change allows Ridley to grow and service its dealer network and better serve customers throughout the market area.

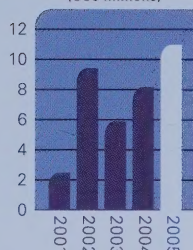
Reporting Currency Changed to U.S. Dollars

Ridley's Board of Directors approved a change in reporting currency to U.S. dollars, effective July 1, 2004. The Company's decision reflects the fact that the United States is Ridley's major market, and is likely to provide significant future opportunities for growth. The change to U.S. dollar reporting will improve the transparency of Ridley's financial reporting by significantly reducing volatility due to exchange rate fluctuations between the Canadian and U.S. dollars. Comparative financial information for all periods prior to fiscal 2005 has been restated for reporting in U.S. dollars.

TOTAL ASSETS
(US\$ millions)

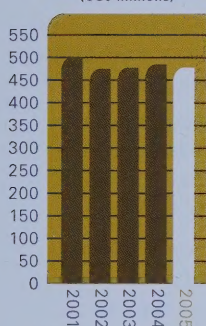


NET EARNINGS
(US\$ millions)

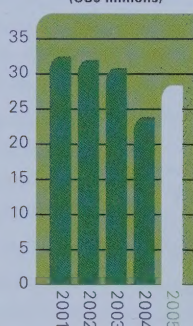


Revenue and EBITDA include the results of discontinued operations to date of disposition.

REVENUE
(US\$ millions)

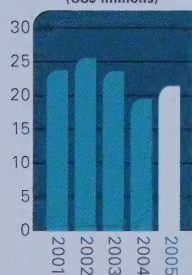


EBITDA*
(US\$ millions)



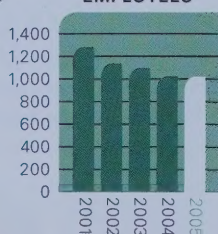
* Earnings before interest, taxes, depreciation and amortization.

CASH FLOW*
(US\$ millions)

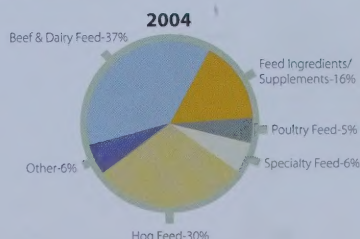
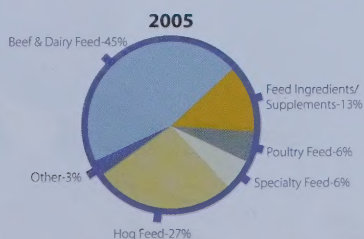


* Cash flow generated from operations before changes in non-cash working capital.

EMPLOYEES



SALES BY PRODUCT LINE - FISCAL 2005 AND 2004



Chairman's Report

After several years of challenging conditions, the economic environment for livestock production in fiscal 2005 proved to be generally favorable. Market prices for swine, beef, poultry and milk in the United States have been strong. Egg prices reached record levels in 2004, but recent rapid expansion of the U.S. layer flock has created an over-supply situation and deteriorating conditions for egg prices.

In Canada, the milk, egg and poultry industries are quota-managed, providing market price stability, and the Canadian swine sector is enjoying strong returns. The Canadian beef industry struggled again in fiscal 2005 with the BSE-induced restrictions on exports. Those restrictions are gradually being lifted and Canadian beef processing capacity is expanding, helping to narrow the gap between Canadian and U.S. beef prices.

A strong livestock industry is good news for the animal nutrition industry. Although we accomplished a great deal in fiscal 2005, we didn't perform as well as we had hoped. Ridley improved net earnings by 32% in 2005, from \$8.1 million to \$10.7 million. Steve VanRoekel describes our operating results more fully in his report. Please bear in mind that Ridley is now reporting in U.S. dollars, a decision made at the beginning of the year because the United States is our major market, and all amounts in this annual report are stated in U.S. dollars unless otherwise specified.

Lawsuits were filed in Alberta, Saskatchewan, Quebec and Ontario in April 2005 against the Government of Canada, Ridley Inc. and Ridley Corporation Limited. The lawsuits seek to certify class actions to include all Canadian cattle farmers who allegedly

suffered damage as a result of international bans on the import of Canadian beef and cattle, introduced when a BSE infected cow was diagnosed in Alberta in May 2003.

Ridley Inc. is strenuously defending the claims, which are being carefully monitored by the Board. For more information, see the C.E.O.'s report.

A major initiative this year of Ridley's Board and Executive Committee was the introduction of a Safety First program throughout the Company. We are implementing a comprehensive new safety system designed to improve and enhance our employees' safety awareness, safety practices and reporting systems. We are determined to improve our overall safety culture and safety performance, and although still in the early stages, response to the program has been enthusiastic.





Ridley's Board of Directors developed a succession plan for Ridley's management team in fiscal 2004 and implemented it in fiscal 2005. A two-stage transition involved Steve VanRoekel, formerly President of Ridley Feed Operations, assuming the position of Ridley Inc.'s President effective September 1, 2004, and Bob Gallaway continuing as C.E.O. Concurrent with this move, Bob Frost was named President of a newly formed division known as Ridley Nutrition Solutions, consisting of Ridley Block Operations, Sweetlix feed supplements, the Equine Business Unit and Ridley Specialty Products. He retained the position of Executive Vice President, Ridley Inc.

Calvin Martin and Eddie Wells were appointed Executive Vice Presidents of Ridley Inc. with Chief Operating Officer type responsibilities for specific parts of Ridley Feed Operations, and Michael Hudspeth was appointed Vice President, Ridley Inc. and joined Ridley Inc.'s Executive Committee.

The second stage of the management succession plan was completed effective March 1, 2005 with the retirement of Bob Gallaway as C.E.O. and the appointment of Steve VanRoekel as President and Chief Executive Officer. The Board extends its sincere appreciation for the leadership Bob Gallaway has provided to Ridley and on behalf of Ridley's Board of Directors, employees and shareholders, we offer our best wishes to Bob and his wife Jeanne for every happiness as they enter retirement.

I am happy to report that the management transition has been very successful and the new team, which includes Mike Mitchell, Gord Hildebrand and John Richardson, has proven to be strong, dedicated and cohesive.

Moving into fiscal 2006, the Board expects the new team will maintain its focus on building a lean and efficient organization and enhancing Ridley's ability to succeed in a very competitive operating environment, both for today and the future.

On behalf of the shareholders and the Board I sincerely thank our employees and our management team for their commitment and enthusiasm over the course of the past year. We are confident that with their continued dedication Ridley will deliver further improved results in fiscal 2006, a high level of service for our customers, and increasing value for our shareholders.

J.S. Keniry
Chairman



President & Chief Executive Officer's Report

The untrained eye could look at the overall performance for Ridley Inc. in fiscal 2005, see another significant improvement in our debt to equity position, an acquisition in Sweetlix performing at expectations, a reduction in customer bad debt, and the third consecutive year of net earnings growth and assume this was a good year. While each of those facts is true, with Cotswold losses and the levels of bad debt that plagued our results in recent years clearly behind us going into the year, we had higher expectations for our results.

Fiscal 2005 got off to a rough start when an unprecedented drop in protein prices, very light sales volumes, and rising health care and energy costs conspired to give us the first quarterly earnings loss in some years. Much of the year-over-year volume decline was a product of the completion of the Cotswold exit, our strategic decision to discontinue customer financing, the

after-effects of very difficult production economics in 2002 and 2003, a strategic shift away from high volume but low-margin compound feeds, and of course the stresses imposed on our Canadian beef cattle volumes resulting from the U.S. border closure.

Our management team responded quickly to these challenges and by the end of the calendar year had reduced operating expenses by an annualized \$8.2 million, impacting results by \$5.9 million in fiscal 2005. More importantly, we were able to make those reductions in areas that did not detract from the positive momentum we've created towards the achievement of our sales, operating, or risk management goals. We also took the decision to close the St. Paul, Alberta plant, where livestock numbers have declined significantly in recent years, and to sell several retail stores in Canada, a non-core business for us.

With the notable exception of the Canadian beef industry, production economics were generally favorable this past year. Calendar 2004 and 2005 have been outstanding years for production agriculture, and that translated to reduced customer attrition rates, lower bad debts, and a growing sense of market stability.

The weather in 2005 however, was not favorable to sales. Winter conditions in the western U.S., where the majority of our seasonal beef feed and low moisture block volumes are sold, were quite mild, resulting in reduced sales. Conversely, wet conditions hampered Sweetlix sales in the southeastern U.S. We did receive an additional vitamin price-fixing settlement check in the amount of \$2.5 million late in the year, offsetting much of the earnings reductions due to weather.





The expense reduction initiative, coupled with improved economic stability in our customer base and continued good sales momentum, resulted in a welcome level of stability and a growing comfort about the results over the last half of the year. Absent the significant and unexpected legal fees associated with the BSE lawsuits, earnings finished the year at the low end of our earlier market guidance.

While each of our operating divisions, Ridley Nutrition Solutions (RNS) and Ridley Feed Operations (RFO) recorded EBIT (earnings before interest and taxes) growth over fiscal 2004, each also fell short of expectations for some or a combination of the reasons above. The exception was our Ridley Feed Ingredients business (RFI), an operating unit within RFO that markets vitamin premixes, feed additives, and ingredients throughout North America. RFI finished the year with another record EBIT performance.

We completed the acquisition of Sweetlix LLC early in the year. So far the integration of its three facilities into the block, equine, and specialty businesses of RNS has gone very well. Elsewhere in RNS, we completed a second McCauley Bros. dedicated equine manufacturing plant in Chambersburg, Pennsylvania. These additions are expected to provide solid long-term growth in important strategic segments for Ridley Inc.

In fiscal 2005 we engaged DuPont Safety Resources to conduct a thorough analysis of our facilities and of our safety policies and procedures. We are now midway through a 24-month engagement to help us implement a comprehensive new safety system throughout our company. Called Safety First, this initiative has already proven to be an energizing and positive experience for the organization.

As mentioned in the Chairman's report, lawsuits in Canada seek to certify class actions by Canadian cattle farmers who allegedly suffered damage as a result of international bans on the import of Canadian beef and cattle, introduced when a BSE infected cow was diagnosed in Alberta in May 2003. The claims are novel, and seek to extend Canadian law into untested areas.

The lawsuits are factually and legally complex. The allegations include that Ridley Inc. supplied contaminated feed to the infected cow. At all times, Ridley Inc. complied with relevant regulations in Canada, and it is not alleged otherwise.

The Government of Canada and both Ridley Inc. and Ridley Corporation Limited have sought to have the Ontario action (which is the focus of attention at this time) struck out before trial. These applications are expected to be heard in mid-November 2005.

Discussions with insurers are continuing. The legal costs are in our budgets, and are being carefully managed.

At the time of this writing, the U.S. has reopened the border to both meat and live cattle less than 30 months of age intended for slaughter. This is not only good for our customers, but reaffirmation of the quality and safety of both the U.S. and Canadian food systems. We are supportive of the Canadian and U.S. governments continuing to work together to ensure that our food system in North America remains the safest in the world. While there is disagreement in some groups as to whether or not the border should remain open, everyone involved in the beef industry can agree on this latter point.



The year ahead looks very positive in many respects, challenging in others.

We are expecting another good economic year overall for production agriculture. Both the number of segments enjoying good returns in Canada and the U.S. and the duration of those returns should provide a very positive backdrop for selling results and receivables.

We enter the year with an even stronger balance sheet and having reduced our customer loan portfolio further. We are looking forward to the first full fiscal year of operating results from Sweetlix and Chambersburg, and to seeing tangible results from our Safety First initiative.

We have a stronger and more sustainable product mix comprised of mostly premixes, supplements, and specialty products. We're more diverse in terms of the segments we serve than ever before, with no single segment comprising more than 30% of our volume. While we're providing products and services to some of the largest accounts in North America, no single customer constitutes more than two percent of our margins.

While we are optimistic about our company and our industry, we are at the same time cautious and realistic.

We'll enter the year with record energy and U.S. health care costs, significant challenges to many North American industries. The cost of regulatory compliance continues to increase in nearly every area of our business. A continuing trend towards lower inclusion products has exacerbated perhaps the industry's and our most significant economic constraint, low capacity utilization in our traditional (RFO) businesses.

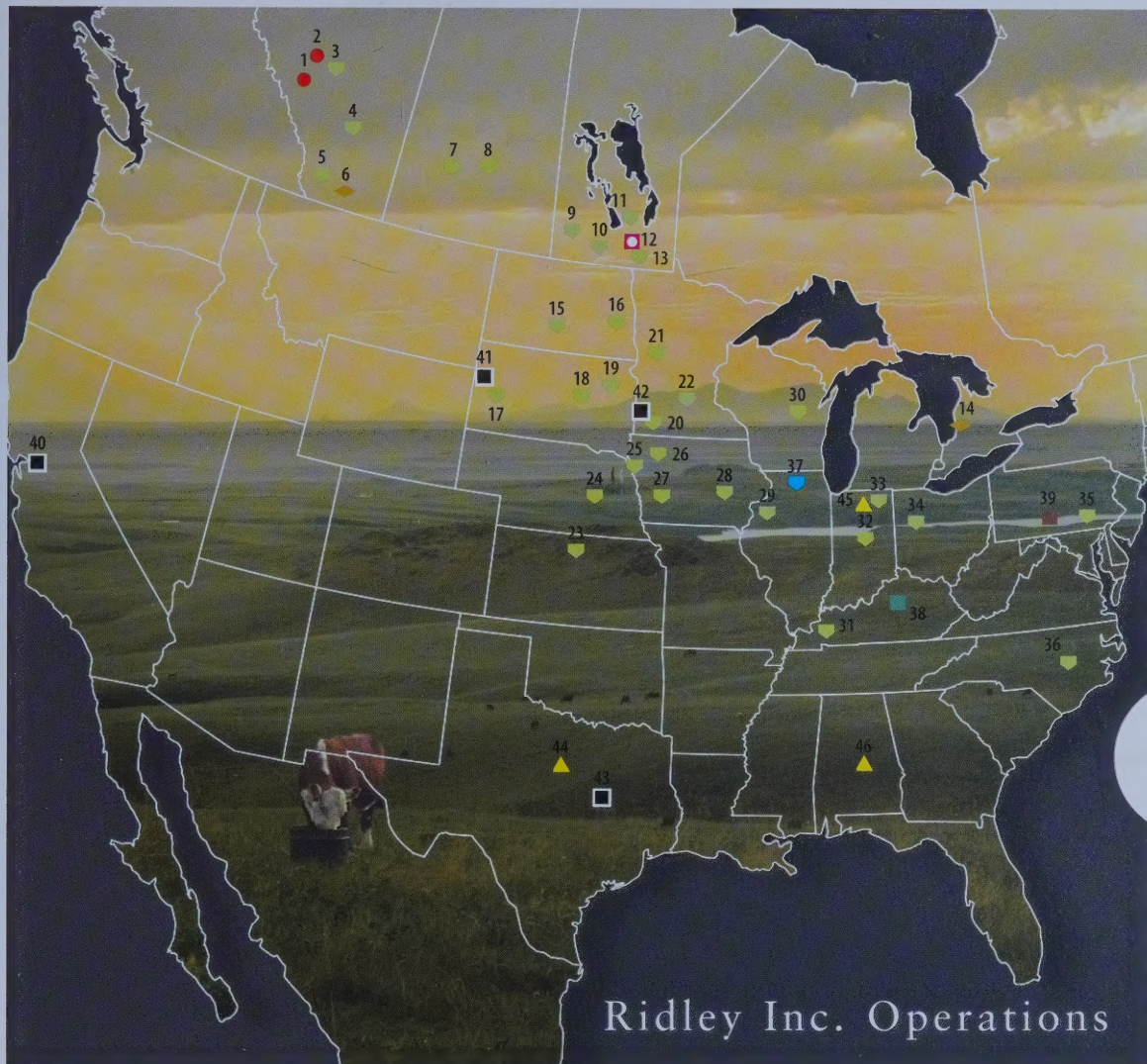
Nonetheless, the formula for success this year looks to be as straightforward as it has been in some time.

First, we need to continue to look for ways to drive costs out of our business. Second, we need to capitalize on a positive production environment and generate sales growth. And third, while we don't expect too many surprises this coming year, we are confident that when this ever-changing environment throws us one, we have the risk management tools and experience to respond.

In closing, I would like to thank the stakeholders of Ridley Inc., including our shareholders, employees, and our customers for their continued confidence in, and support of this organization. We'll continue to work very hard to ensure that it is well placed.

S.J. VanRoekel,
President & C.E.O.





Ridley Inc. Operations

- | | | |
|----------------------------------|------------------------------|--------------------------------|
| 1. Rocky Mountain House, Alberta | 17. Rapid City, South Dakota | 33. Shipshewana, Indiana |
| 2. Rimbey, Alberta | 18. Huron, South Dakota | 34. Botkins, Ohio |
| 3. Lacombe, Alberta | 19. Watertown, South Dakota | 35. Lancaster, Pennsylvania |
| 4. Linden, Alberta | 20. Worthington, Minnesota | 36. Selma, North Carolina |
| 5. Fort Macleod, Alberta | 21. Alexandria, Minnesota | 37. Mendota, Illinois |
| 6. Lethbridge, Alberta | 22. Mankato, Minnesota | 38. Versailles, Kentucky |
| 7. Saskatoon, Saskatchewan | 23. Beloit, Kansas | 39. Chambersburg, Pennsylvania |
| 8. Humboldt, Saskatchewan | 24. Columbus, Nebraska | 40. Stockton, California |
| 9. Brandon, Manitoba | 25. Sioux City, Iowa | 41. Whitewood, South Dakota |
| 10. Manitou, Manitoba | 26. Storm Lake, Iowa | 42. Worthington, Minnesota |
| 11. Arborg, Manitoba | 27. Atlantic, Iowa | 43. Buffalo, Texas |
| 12. Winnipeg, Manitoba | 28. Iowa City, Iowa | 44. Fort Worth, Texas |
| 13. Grunthal, Manitoba | 29. Bushnell, Illinois | 45. Syracuse, Indiana |
| 14. Mitchell, Ontario | 30. Appleton, Wisconsin | 46. Montgomery, Alabama |
| 15. Bismarck, North Dakota | 31. Hopkinsville, Kentucky | |
| 16. Grandin, North Dakota | 32. Castleton, Indiana | |

Key to Types of Facilities

- Primary Feed Plants
- ◆ Macro Premix Plants
- Retail Store Only
- Micro Premix, Macro Premix, Primary Feed Plant, Retail Store
- Ridley Feed Ingredients
- ▲ Sweetlix
- McCauley Bros., Inc.
- Ridley Equine Center
- Ridley Block Operations

Ridley Inc. Board of Directors



**J.S. Keniry, AM, BSc, PhD,
FTSE, FRACI, FAICD
Chairman, Age 62**

Director and Chairman since 1997. Director of Ridley Corporation Limited, Australia, since 1990 and its Chairman since March 1994. Presently Chairman/Director of a number of other Australian statutory bodies and companies. Past-President, Australian Chamber of Commerce and Industry; Fellow of the Royal Australian Chemical Institute, Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.



**M.P. Bickford-Smith
Non-Executive Director,
Age 45**

Matthew joined Ridley Corporation in November 2000. His previous responsibilities included overseeing the Man Group's interests in the Australian refined sugar industry, managing risk for the Group's sugar businesses within the Asian region and working in soft commodities, particularly in proprietary trading, structured financing and marketing.



J.C. Brown, BSA, MSc, PAg, FAIC
Non-Executive Director,
Age 76

Director since May 1997. Since 1996, Principal, J.C. Brown Consulting Services. Currently, Business Manager, EPB Environmental Services Ltd. Formerly Vice-President, Marketing with Feed-Rite Ltd. and earlier was the Director of Market Development with the Canadian Wheat Board. Former National Director of the Agricultural Institute of Canada and Past President of the Manitoba Institute of Agrologists. Actively involved in western Canada's agri-business sector for 50 years.



R.L.M. Dawson, MA
Non-Executive Director,
Age 70

Director since May 1997. Principal of Fulcrum Associates, a Winnipeg consulting firm specializing in value-added agriculture and sustainable development. Formerly Senior Vice President of Cargill Limited. Held senior management positions with Cargill in Europe, South America and Canada, including responsibilities for grain marketing, the feed industry, the seed business, and corporate affairs. Chairman of the Winnipeg Commodity Exchange, 1978. Served on Canada's Agricultural Advisory Committee to the "Uruguay" GATT Round and on the Economic Innovation and Technology Council of Manitoba. Chairman of the Post Secondary Education Council of Manitoba, 1997-2000.



L.J. Martin, PhD
Non-Executive Director,
Age 60

Director since May 1997. Chief Executive Officer of the George Morris Centre since 1998; formerly Director of Research since its inception in 1990. Previously Professor and Chair, Department of Agricultural Economics and Business, University of Guelph. Has extensive experience in competitiveness and trade issues and has facilitated the strategic visioning, planning, and development of strategic alliances for many organizations.



Management's Discussion and Analysis

The following Management's Discussion and Analysis as of August 5, 2005, should be read in conjunction with the Company's financial statements and notes to the financial statements that appear on pages 25 to 47 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

The financial data in the Management's Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts are in U.S. dollars unless otherwise specified.

U.S. Dollar Reporting

On July 1, 2004, the Company changed its reporting currency to the U.S. dollar. The Company decided, for financial statement reporting purposes, to effect the change to U.S. dollar reporting retroactive to July 1, 2000. In accordance with GAAP, all opening balances of assets, liabilities and shareholders' equity were translated to U.S. dollars using the exchange rate in effect on that date.

For periods subsequent to July 1, 2000, assets and liabilities of self-sustaining entities denominated in Canadian dollars or U.K. sterling are translated to U.S. dollars at the period-end exchange rate. Revenue and expenses are translated at the weighted average exchange rate for the period. Unrealized gains and losses on the net investment in self-sustaining entities are deferred and included in cumulative foreign currency translation adjustments in shareholders' equity.

Comparative financial information for all periods prior to fiscal 2005 has been restated in U.S. dollars.

Results of Operations

Overview

Livestock production economics were generally favorable in fiscal 2005. Swine producers are enjoying a second year of strong market prices after having survived a long period of price depression. Despite swine producers being at a favorable point in the production cycle, there is little evidence of a build-up in market hog inventories, freezer supplies are being cleared, and the breeding herd has grown only modestly in the past year. With domestic demand being stable and export demand remaining strong, these conditions suggest that swine producers should be able to expect market prices to follow historical patterns, with a gradual reduction in market prices to the end of the calendar year, and subsequent strengthening in the new year, allowing them to continue to operate profitably.

U.S. dairymen went through a period of record low prices for milk in calendar years 2002 and 2003, rising to record highs in 2004. Milk prices have remained strong in the U.S. in 2005, and increasing cow productivity will likely be countered by gradual changes in the dairy cow herd, allowing milk production to track population growth. Milk prices should remain at profitable levels, although moderating from the record highs of 2004, allowing for reasonable producer returns. In Canada, milk, eggs and poultry are quota-managed and therefore producers are not subject to the full extent of market price fluctuations.

In fiscal 2005, beef producers on both sides of the border operated under conditions that largely mirrored the highly uncertain situation in fiscal 2004. In the U.S., the BSE situation and the related ban on most U.S. beef exports did not drastically impact the

domestic producer. Excess supplies were offset by the reduction of Canadian beef imports. Canadian beef producers, however, continued to struggle, as the U.S. and some other countries continued their restrictions on the importation of Canadian live cattle. Canada has historically been a net exporter of beef, with the U.S. being its key beef consumer.

The Canadian beef industry has responded by expanding domestic slaughter capacity, and in the meantime U.S. beef processors have been reducing capacity in reaction to insufficient supply of cattle. Some of the uncertainty appears to have been resolved by the decision of a U.S. appeals court on July 14, 2005 to overturn a temporary injunction banning imports of Canadian cattle. The border has been partially re-opened and cattle under 30 months old are being shipped to the U.S., but it is unknown whether the situation has been completely resolved. Looking ahead, assuming the border remains open, the spread between U.S. and Canadian cattle prices should narrow considerably, as Canadian producers access the increased domestic slaughter capacity as well as U.S. processors. U.S. beef producers will likely see stable prices for their cattle as the expected inflow of Canadian cattle is offset by cow/calf operators increasing their breeding herds.

U.S. poultry producers are seeing high prices, which should lead to production increases in 2005. Steady growth in per capita chicken consumption is expected to continue, and the rapid expansion in production in 2005 will moderate on a longer-term basis. Very rapid recent expansion in the U.S. layer flock has occurred and created an over-supply situation for eggs and deteriorating conditions for egg prices in the coming year. As noted earlier, eggs and poultry are quota-managed in Canada and fluctuations in market prices are small, leading to stable market conditions for Canadian producers.



M.S. Mitchell
Chief Financial Officer

New Segment Reporting

On July 1, 2004, the Company changed its segment reporting from a geographic basis to an operational basis. Please refer to "Recently Adopted Accounting Standards and Reporting" on page 22 for more information and a description of the segments.

The following table summarizes the Company's operating results and key balance sheet metrics for fiscal 2005 and fiscal 2004.

Business Segment Financial Results (in US\$000)

	Ridley Feed Operations		Ridley Nutrition Solutions		Unallocated		Total	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
Revenue	399,960	426,441	78,574	48,202	–	–	478,534	474,643
Cost of sales	333,023	354,835	58,094	33,051	–	–	391,117	387,886
Gross profit	66,937	71,606	20,480	15,151	–	–	87,417	86,757
	16.7%	16.8%	26.1%	31.4%	–	–	18.3%	18.3%
Operating expenses								
Selling, G&A	46,417	51,115	10,165	6,420	3,811	2,798	60,393	60,333
Amortization	6,084	6,040	1,643	1,433	293	344	8,020	7,817
Research & development	936	522	255	457	–	–	1,191	979
Claim settlement	(2,484)	–	–	–	–	–	(2,484)	–
Asset impairment loss	1,218	–	–	–	–	–	1,218	–
	52,171	57,677	12,063	8,310	4,104	3,142	68,338	69,129
Operating income	14,766	13,929	8,417	6,841	(4,104)	(3,142)	19,079	17,628
Interest expense							3,160	3,836
Interest income							(800)	(930)
Earnings before income taxes							16,719	14,722
Provision for income taxes							5,433	5,345
Minority interest share of net earnings							143	84
Net earnings from continuing operations							11,143	9,293
Attributed to discontinued operations							(395)	(1,170)
Net earnings for the year							10,748	8,123
Total assets – continuing operations	163,014	165,952	56,443	33,822	3,918	9,430	223,375	209,204
Property, plant and equipment – continuing operations	72,324	72,909	23,496	13,507	27	41	95,847	86,457
Goodwill & other intangibles – continuing operations	29,132	28,181	22,305	14,810	–	–	51,437	42,991
Total assets – discontinued operations	–	–	–	–	796	3,729	796	3,729

"Operating income" as described above does not have a standardized meaning prescribed by Canadian GAAP, therefore it is unlikely to be comparable to similar measures presented by other companies.

Income From Operations

On a consolidated basis, revenue from continuing operations for 2005 increased by \$3.9 million, or 0.8%, to \$478.5 million compared with \$474.6 million in 2004.

Cost of sales increased by \$3.2 million, to \$391.1 million compared with \$387.9 million in the previous year. Gross profit for 2005 of \$87.4 million was \$0.6 million or 0.8% higher than the 2004 total of \$86.8 million. As a percentage of revenue, the gross profit in both years was 18.3%.

Total operating expenses, including selling, general and administrative expenses, amortization, and research and development, were \$68.3 million for the year, or \$0.8 million lower than the 2004 total of \$69.1 million. Operating expenses in 2005 include a write-down of \$1.2 million for the St. Paul feed mill that was closed in October.

Ridley's operating income of \$19.1 million was \$1.5 million higher than the \$17.6 million recorded in 2004. Interest expense net of interest income was \$2.4 million in 2005 compared with \$2.9 million the previous year. The loss attributed to the discontinued Cotswold operations was \$0.4 million in 2005 and \$1.2 million in 2004.

Net earnings in fiscal 2005 were \$10.7 million, compared with net earnings of \$8.1 million in 2004.

The following discussion of division results provides a more detailed analysis of these changes.

Ridley Feed Operations

The Ridley Feed Operations (RFO) segment consists of full-line feed mills operating in the United States and Canada, producing and marketing products for the core animal nutrition market, and a plant in Mendota, Illinois, that produces micro feed ingredients, vitamin and trace mineral premixes and feed additives. RFO's reported results encompass 13 full-line plants in Canada, 22 full-line plants in the U.S., and the Mendota feed ingredients plant. RFO plants derive most of their business by manufacturing and marketing a broad range of complete feeds, supplements and premixes to meat, milk and egg producers, owners of equine and companion animals located mostly in the upper midwestern U.S. and prairie provinces of Canada.

Revenue decreased by \$26.4 million or 6.2%, from \$426.4 million in 2004 to \$400.0 million in 2005. Generally, a comparison of revenue on a dollar basis is not necessarily indicative of the strength of Ridley's business because revenue can be influenced by fluctuating commodities prices. This is the result of a sales volume decline of 4.7% from the prior year and a rapid decline in feed ingredient prices experienced in the first quarter of fiscal 2005. The lower sales volume was entirely in the Canadian plants, as the U.S. plants generated a modest 1% volume increase. The Canadian plants were affected throughout the year by cross-border issues affecting the ability of beef and swine producers to ship their product to the United States. The reported cases of BSE in Alberta produced repercussions for the North American beef industry, and resulted in closure of the U.S./Canada border for shipments of live Canadian cattle. Canadian pork producers had experienced a significant degree of producer liquidation and consolidation in the two years prior to fiscal 2005, reducing complete feed sales to this sector. In addition, a proposed countervailing duty on Canadian hogs entering the U.S. created enough uncertainty to halt any planned growth or expansion in the Canadian industry, hampering feed sales. A planned transition to more sales of low inclusion products such as premixes and supplements and less reliance on sales of complete feeds was another factor in the reduced volumes.

Cost of sales decreased by \$21.8 million to \$333.0 million compared with \$354.8 million in 2004. The volume decline and lower commodity prices, particularly for soybean meal and canola meal, drove the decrease in cost of sales.

Gross profit decreased by \$4.7 million, or 6.5% to \$66.9 million in 2005 from \$71.6 million in 2004. The lower gross profit reflects lower sales volumes and a slight decrease in percentage margins. As a percentage of revenue, gross profit decreased to 16.7% in 2005 from 16.8% in 2004. Margins slumped badly in the first quarter when there was unusual volatility in feed ingredient prices. The rapid and unexpected drop in price for soybean meal and canola meal that took place early in fiscal 2005 resulted in losses on inventory and existing purchasing positions, impacting gross profit by approximately \$1.5 million. Ridley's margins returned to more satisfactory levels for the balance of the year, reflecting better product mix and increased focus on margin management.

Total operating expenses decreased by \$5.5 million, to \$52.2 million in 2005 from \$57.7 million in 2004. Of this amount, selling, general and administrative expenses decreased by \$4.7 million, to \$46.4 million in 2005 from \$51.1 million in 2004. There were two primary contributors to lower selling, general and administrative expenses. The first was a cost reduction plan introduced in October 2004. In response to the demanding operating environment in fiscal 2005, Ridley examined all areas of the business, implementing stringent cost controls in a changing environment. Targeted manpower reductions and cost containment programs were initiated. The net benefit of the cost containment program after severance costs was \$5.5 million. Secondly, Ridley incurred \$0.9 million in loan impairments in fiscal 2005, a reduction of \$3.8 million from the fiscal 2004 total. Offsetting these savings were higher costs for health care in the U.S. and inflationary cost increases throughout RFO.

Amortization increased slightly by \$0.04 million to \$6.08 million compared to \$6.04 million in 2004.

Research and development costs increased by \$0.4 million, to \$0.9 million from \$0.5 million in 2004, due to expanded research efforts mainly in the area of swine and dairy feeds.

RFO operating expenses in fiscal 2005 include a \$1.2 million asset impairment loss taken when a decision was made to close the St. Paul, Alberta, feed mill. The St. Paul facility was closed in the second quarter because it operated in a marketplace experiencing reduced livestock numbers and it was no longer profitable. A claim settlement of \$2.5 million was received in fiscal 2005 from a U.S. supplier, and is netted against operating expenses.

Operating income of Ridley Feed Operations increased by \$0.8 million to \$14.7 million in 2005 from \$13.9 million in 2004.

Ridley Nutrition Solutions

The Ridley Nutrition Solutions (RNS) segment consists of the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business. The low moisture block operations have four production facilities and trade as Ridley Block Operations (RBO). The Sweetlix feed supplements business was acquired in late July 2004 and operates from three production facilities, and the equine business consists of McCauley Bros., Inc. in Versailles, Kentucky, and the Ridley Equine Center that opened in May 2005 in Chambersburg, Pennsylvania.

RNS revenues increased by \$30.4 million, or 63.0%, to \$78.6 million in 2005 from \$48.2 million in 2004. As noted earlier, sales on a dollar basis are not an accurate measurement of Ridley businesses as they are affected by fluctuating commodity prices. All of the increase in fiscal 2005 revenues is attributable to the Sweetlix business, that was acquired on July 30, 2004. Exclusive of the Sweetlix operations, RBO recorded sales volumes that were 5.0% lower than last year, while the equine business increased sales volumes by 13.4%.

Product sales for Ridley Nutrition Solutions were hampered early in fiscal 2005 by plentiful moisture, producing good forage for cattle, and by a lack of winter snow cover until well into the winter season. Good moisture conditions prevailed again in the spring. Tight molasses supplies created production scheduling problems, particularly for the RBO plants, causing production to be shifted between plants to meet customers' needs, with consequent higher transportation costs. RBO and Sweetlix were also impacted by the uncertainties created by the BSE situation and the resulting market instability. RNS implemented an aggressive campaign of promotional activity, combined with better sales and profitability performance in the equine business, to offset the effects of adverse weather conditions and generate satisfactory operating results. Sweetlix volumes recovered well after a slow first quarter when hurricanes in the southeastern U.S. significantly disrupted business activity.

Cost of sales for 2005 increased by \$25.0 million, or 75.5%, to \$58.1 million from \$33.1 million in 2004. The increase in cost of sales primarily reflects the addition of Sweetlix sales volumes in fiscal 2005, a business with a different product mix than the low moisture block and equine nutrition businesses. Higher molasses costs, transportation and utilities also contributed to the higher costs. The reduction in gross margin percentages is indicative of an inability to pass on all of the cost increases to customers, as well as a different product mix with the addition of the Sweetlix product line.

Total operating expenses increased by \$3.8 million, or 45.2%, to \$12.1 million in 2005 from \$8.3 million in 2004, with virtually all of the increase being attributable to the addition of the Sweetlix operations early in fiscal 2005. Overall Selling, G&A costs in RBO and the equine business were flat. Although health care costs were higher, they were offset by savings in other areas from cost containment efforts put in place throughout the year.

Research and development costs declined by \$0.2 million, to \$0.3 million from \$0.5 million in 2004, as part of the cost containment effort.

Operating income for Ridley Nutrition Solutions increased by \$1.6 million, or 23.0%, to \$8.4 million from \$6.8 million in 2004. The increase was from the acquired Sweetlix business as the rest of the RNS segment reported slightly lower operating income, in line with the reduction in sales volumes.

Unallocated Costs

Unallocated costs increased by \$1.0 million in 2005, to \$4.1 million from \$3.1 million in 2004. Fiscal 2005 costs reflect higher wages and benefits, \$0.5 million for legal fees associated with the BSE lawsuits, and include higher professional fees associated with a potential corporate tax restructuring.

Interest Expense

Interest expense decreased by \$0.7 million, or 17.6%, to \$3.2 million from \$3.8 million in 2004. This resulted from a reduction in the average level of debt in fiscal 2005 compared with fiscal 2004. The total short-term and long-term debt was reduced from \$56.4 million at the beginning of fiscal 2004 to \$41.3 million at the end of fiscal 2004 and then to \$40.4 million at the fiscal 2005 year-end.

Interest Income

Interest income consists primarily of interest received on loans and accounts receivable from third parties. Interest income was \$0.8 million in fiscal 2005, down from \$0.9 million in fiscal 2004. The interest received on loans decreased in 2005, reflecting stable interest rates and reduced loan levels.

Income Taxes

Income taxes as a percentage of net earnings before income taxes decreased from 36.3% in 2004 to 32.5% in 2005, reflecting a reduction in statutory rates and favorable adjustments to prior year estimates.

Discontinued Operations – Cotswold Swine Genetics

In the first quarter of fiscal 2004, the Company sold key assets of its North American swine genetics business (Cotswold Swine Genetics) to a genetics company. Ridley committed to maintain certain swine production on a sub-contract basis for a period of one year. The remaining facilities were sold to various swine producers during fiscal 2004. The wind-down was completed as scheduled in the first quarter of fiscal 2005.

Losses on discontinued operations of \$0.4 million after income taxes were recorded in fiscal 2005. In fiscal 2004, these losses totalled \$1.2 million.

Net Earnings for the Year

Net earnings for the year increased by \$2.6 million, from \$8.1 million in 2004 to \$10.7 million in 2005. Net earnings from continuing operations also increased, by \$1.8 million, from \$9.3 million in 2004 to \$11.1 million in 2005. Diluted earnings per share for fiscal 2005 were \$0.77, an increase from \$0.59 diluted earnings per share in 2004.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares, with no par value. The number of shares outstanding at June 30, 2004, was 13,727,300. In fiscal 2005, an additional 45,000 shares were issued for exercised shares under the Company's stock option plan. The number of shares outstanding at June 30, 2005, was 13,772,300.

The following stock options to purchase common shares were outstanding as of June 30, 2005:

Date granted	Exercise price	Vesting date	Expiry date	Number outstanding
Dec. 01, 1999	\$6.50	Dec. 01, 2001	Nov. 30, 2005	94,100
Nov. 06, 2000	\$5.38	Nov. 06, 2002	Nov. 06, 2006	162,500
				256,600

Exercise price per share is indicated in Canadian dollars.

All options are fully vested and subject to the terms and conditions set out in the stock options agreement.

Selected Annual Information

Fiscal Year	2005	2004	2003
Revenue (\$000)	478,534	474,643	462,758
Operating income (\$000)	19,079	17,628	27,575
Net earnings from continuing operations (\$000)	11,143	9,293	15,091
Net earnings from continuing operations – per share			
– Basic	\$0.81	\$0.68	\$1.12
– Diluted	\$0.80	\$0.67	\$1.10
Net earnings (\$000)	10,748	8,123	5,989
Net earnings – per share			
– Basic	\$0.78	\$0.59	\$0.44
– Diluted	\$0.77	\$0.59	\$0.44
Total assets (\$000)	224,171	212,933	214,416
Total debt (\$000)	40,395	41,341	56,380
Cash dividends declared – per share	\$0.00	\$0.00	\$0.00

The following factors affect the comparability of the data in the previous three-year summary of financial data:

2005

Operating income for fiscal 2005 continued to be impacted by the BSE incidents and by mild winter weather conditions. Current year results include \$2.5 million received from a supplier in the United States in settlement of a claim. This was offset to a large degree by \$1.5 million in asset impairment losses and closing costs associated with the St. Paul facility. Current year acquisitions contributed about \$2.0 million to operating income. Income tax expense as a percentage of pre-tax income of 32.5% in fiscal 2005 reflects an improvement over previous years' rates. This is attributed to statutory rate declines over the past three years and favorable adjustments to prior year estimates. Net earnings from continuing operations reflects improvements in operating income while income tax expense remained flat.

The Cotswold Swine Genetics (CSG) business was sold in the first quarter of fiscal 2004 (see Discontinued Operations above). Ridley committed to maintain certain swine production on a sub-contract basis for a period of one year. The remaining facilities were sold to various swine producers during fiscal 2004. The

wind-down was completed as scheduled in the first quarter of fiscal 2005.

A loss of \$0.4 million on discontinued operations reflects additional expenses in the U.K., a loss on the sale of the Sioux Falls property, and a small gain on the final Cotswold Swine Genetics wind-down.

2004

Operating income was off significantly from fiscal 2003 mainly due to volume declines. The mild winter in the midwestern U.S. and carryover inventories in the U.S. from the USDA drought assistance program that was introduced in fiscal 2003 reduced both low moisture block sales and seasonal beef feed sales in the U.S. in fiscal 2004. Beef feed sales were also reduced as higher U.S. cattle prices pulled forward live cattle sales to feedlots by cow/calf operators, reducing the number of cattle on pasture. Canadian feed sales volumes were negatively impacted by the BSE incidents with lower Canadian cattle prices resulting from the border closure; as well, feed exports to the U.S. were temporarily restricted because of concerns over prohibited animal protein products. In addition to the impact of declining volumes, expenses were higher in the areas of insurance and bad debts in the U.S. and Canada. The U.S. recorded a significant charge of \$4.7 million relating to a loan impairment.

The process of divesting CSG, the Company's North American swine genetics business, proceeded according to plan in fiscal 2004 and was substantially complete by the end of the year. The net losses from the discontinued Cotswold operations of \$1.2 million reduced the Company's earnings from continuing operations of \$9.3 million to net earnings of \$8.1 million for the year.

2003

In fiscal 2003, the Company decided to exit the swine genetics business and recorded an after-income tax charge of \$6.4 million to reflect the impairment of CSG assets. Included in the loss on discontinued operations is a tax benefit of \$2.4 million as a result of amalgamating the wholly-owned Cotswold Canada subsidiary with Ridley Inc. Total losses on discontinued operations after income taxes were \$9.1 million.

Summary of Quarterly Results

Quarterly Segment Results Fiscal 2005

	30-June-05 (\$000)	31-Mar-05 (\$000)	31-Dec-04 (\$000)	30-Sep-04 (\$000)	Fiscal 2005 (\$000)
Revenue					
Ridley Feed Operations	93,468	97,993	105,629	102,870	399,960
Ridley Nutrition Solutions	15,639	23,678	24,286	14,971	78,574
Total revenue	109,107	121,671	129,915	117,841	478,534
Operating income					
Ridley Feed Operations	2,881	7,804	5,512	(1,431)	14,766
Ridley Nutrition Solutions	(58)	3,601	3,688	1,186	8,417
Unallocated	(1,091)	(1,250)	(976)	(787)	(4,104)
Total operating income (loss)	1,732	10,155	8,224	(1,032)	19,079
Net earnings (loss) from continuing operations	1,221	5,681	5,328	(1,087)	11,143
Net earnings (loss) from discontinued operations	(190)	22	20	(247)	(395)
Net earnings (loss)	1,031	5,703	5,348	(1,334)	10,748
Earnings (loss) per share from continuing operations					
– Basic	0.09	0.41	0.39	(0.08)	0.81
– Diluted	0.08	0.41	0.39	(0.08)	0.80
Net earnings (loss) per share					
– Basic	0.08	0.41	0.39	(0.10)	0.78
– Diluted	0.07	0.41	0.39	(0.10)	0.77

Quarterly Segment Results Fiscal 2004

	30-June-04 (\$000)	31-Mar-04 (\$000)	31-Dec-03 (\$000)	30-Sep-03 (\$000)	Fiscal 2004 (\$000)
Revenue					
Ridley Feed Operations	104,377	107,686	116,146	98,232	426,441
Ridley Nutrition Solutions	9,133	14,089	14,104	10,876	48,202
Total revenue	113,510	121,775	130,250	109,108	474,643
Operating income					
Ridley Feed Operations	2,287	1,046	6,381	4,215	13,929
Ridley Nutrition Solutions	443	2,139	2,642	1,617	6,841
Unallocated	(820)	(780)	(776)	(766)	(3,142)
Total operating income	1,910	2,405	8,247	5,066	17,628
Net earnings from continuing operations	1,107	1,037	4,543	2,606	9,293
Net earnings (loss) from discontinued operations	255	(600)	(709)	(116)	(1,170)
Net earnings	1,362	437	3,834	2,490	8,123
Earnings per share from continuing operations					
– Basic	0.08	0.08	0.33	0.19	0.68
– Diluted	0.08	0.07	0.33	0.19	0.67
Net earnings per share					
– Basic	0.10	0.03	0.28	0.18	0.59
– Diluted	0.10	0.03	0.28	0.18	0.59

Fourth Quarter Results

Sales revenues decreased 3.9% to \$109.1 million compared to \$113.5 million in the fourth quarter of fiscal 2004. Generally, a comparison of revenue on a dollar basis is not necessarily indicative of the strength of Ridley's business because revenue can be influenced by fluctuating commodities prices. In fiscal 2005, reported revenue includes the sales volumes generated by the Company's Sweetlix feed supplement business, which was acquired in July 2004, offset by lower volumes in the existing businesses and lower selling prices per ton associated with lower input prices. Overall sales volumes were up by about 2.0%, but ingredient prices in the 2004 fourth quarter were much higher, as were selling prices per ton. Ingredient prices dropped precipitously in the fiscal 2005 first quarter, and then gradually strengthened during the year, although not returning to the same levels as at the end of fiscal 2004.

Fiscal 2005 fourth quarter margins have improved over the comparative fiscal 2004 period in Ridley Feed Operations (RFO), reflecting better product mix and increased focus on margin management. A planned focus on lower-inclusion products with higher per-ton margins, particularly in the Canadian operations, has helped to return RFO margins to last year's levels. Percentage margins in Ridley Nutrition Solutions (RNS) are lower than in 2004, reflecting two factors. First, the acquisition of Sweetlix

in the first quarter of fiscal 2005 has strengthened the overall business, allowing a wider range of product offerings and broader geographic distribution, but its feed supplement product line does not carry margins comparable to the existing low moisture block, specialty products and equine nutrition businesses. Secondly, the low moisture block business, Ridley Block Operations (RBO), was dealing with molasses shortages in the fourth quarter, resulting in higher ingredient costs. In order to meet production requirements, a significant amount of production was re-directed to the plant in Buffalo, Texas, with higher delivery costs to customers.

Overall, even with a reduction in total revenues, the improvement in RFO margins enabled Ridley to increase gross profit to \$18.8 million compared with \$17.5 million in the fourth quarter of fiscal 2004. After the unusual volatility in feed ingredient prices in the first quarter, Ridley's margins recovered through the balance of the year.

Fiscal 2005 operating expenses increased by \$1.5 million, to \$17.1 million in 2005 from \$15.6 million in 2004, with most of the increase being attributable to the addition of the Sweetlix operations. Other contributors to the higher costs include health care costs and legal fees related to the BSE lawsuits, offset somewhat by savings from the cost reduction program initiated in October.

Operating income for the quarter was \$1.7 million compared with \$1.9 million in the fourth quarter of fiscal 2004. Overall debt service costs are lower in the fiscal 2005 fourth quarter, resulting in a \$0.2 million reduction in interest expense, from \$0.8 million to \$0.6 million.

Income taxes for the fourth quarter of both years reflect favorable adjustments made to prior year estimates.

Earnings from continuing operations were \$1.2 million for the fiscal 2005 fourth quarter compared with \$1.1 million in 2004. The reported fourth quarter fiscal 2005 loss in discontinued operations is related to funding of pension obligations in the U.K. In the fourth quarter of fiscal 2004, discontinued operations reported a small profit on operations.

The Company's net income of \$1.0 million in the fourth quarter of fiscal 2005 (\$0.07 per diluted share) compares to net income of \$1.4 million (\$0.10 per diluted share) in fiscal 2004.

Liquidity

Ridley's consolidated balance sheet at June 30, 2005, together with comparative final 2004 and 2003 figures, is summarized as follows:

	Balances as of June 30		
	2005 (\$000)	2004 (\$000)	2003 (\$000)
Current assets	70,535	74,627	73,389
Current liabilities	45,296	50,373	45,743
Working capital	25,239	24,254	27,646
Property, plant & equipment	95,847	86,457	83,881
Goodwill & other intangibles	51,437	42,991	42,387
Other non-current assets	6,352	8,858	14,760
Long lived assets	153,636	138,306	141,028
Long-term portion of debt	32,024	27,134	44,629
Future tax liability	23,624	25,518	22,498
Other long-term liabilities	4,505	4,332	3,671
Long-term liabilities	60,153	56,984	70,798
Equity	118,722	105,576	97,876

The debt to equity relationship as of June 30, 2003 through 2005, is summarized below:

	2005 (\$000)	2004 (\$000)	2003 (\$000)
Debt defined as bank obligations and capital leases	40,395	41,341	56,380
Equity	118,722	105,576	97,876
Debt to equity	34%	39%	58%

The change in cash balances, including discontinued operations for the twelve months ending June 30 for the following fiscal years is summarized below:

	2005 (\$000)	2004 (\$000)	2003 (\$000)
Provided from operations before working capital requirements	21,748	19,747	24,168
Provided from (used for) working capital requirements	2,545	4,755	(8,309)
Provided from operations	24,293	24,502	15,859
Net utilized for investing activities	(23,687)	(6,948)	(7,363)
Net utilized for financing activities	(3,074)	(14,456)	(9,221)
Effect of exchange rate changes on cash	(51)	13	117
Increase (decrease) in cash balances	(2,519)	3,111	(608)

The Company has consistently generated cash from operations over the past three years, allowing for significant debt repayments. The debt to equity ratio is currently at 34%, a significant reduction from the level at the fiscal 2003 year-end. During fiscal 2005, capital expenditures of \$8.8 million were at about normal historical levels, but the acquisition of the Sweetlix business and the Beloit, Kansas, plant in 2005 for \$18.2 million was significantly larger than the business acquisitions of \$4.3 million in 2004 and \$2.0 million in 2003. Reductions in customer loans outstanding and proceeds from sale of capital assets in fiscal 2005 reduced the total cash utilized for investing activities to \$23.7 million. Cash proceeds in fiscal 2004 include \$3.5 million on the sale of the capital assets associated with discontinued operations. Offsetting a large portion of these proceeds were losses and contract settlements associated with the discontinued operations. The Company generated sufficient cash from operations in fiscal 2005 to repay all of the debt incurred for the acquisition of Sweetlix.

The Company's major borrowing capabilities are covered under a global banking agreement with a syndicate of five international banks. At June 30, 2005, the borrowing limit under this agreement was \$49.6 million, which is \$12.4 million above the outstanding debt level associated with the facility. The Company is positioned to fund acquisitions through standard debt facilities.

Working capital exclusive of all future income tax benefits/liabilities and debt as of June 30, 2003 through 2005, is summarized below:

	2005 (\$000)	2004 (\$000)	2003 (\$000)
Current assets, excluding future income tax benefits	68,522	70,012	70,707
Current liabilities, excluding current debt	36,925	36,166	33,992
Working capital excluding current debt	31,597	33,846	36,715

Working capital excluding current debt and future income tax benefits reflects the Company's position in maintaining operating activities. The level of working capital to support business activity has remained relatively flat. A gradual decrease in net working capital assets and liabilities is due primarily to liquidating discontinued operations, mitigated somewhat by acquisition of a small feed mill in each of fiscal 2003 and 2004, and by the Sweetlix and Beloit acquisitions in fiscal 2005.

Contractual Obligations

The following table summarizes the Company's obligations to make future payment on long-term debt, lease obligations and other obligations at June 30, 2005, as well as expected timing of the payments.

Contractual Obligations	Payments Due by Period				
	Total (\$000)	Less than 1 Year (\$000)	1-2 Years (\$000)	2-3 Years (\$000)	After 3 Years (\$000)
Debt	40,009	8,224	31,739	40	6
Capital leases	386	147	239	—	—
Operating leases	5,806	1,788	1,264	752	2,002
Purchase contracts	22,628	22,628	—	—	—

Capital Resources

Capital asset expenditures during the year were \$8.8 million, compared with \$7.4 million in 2004. During 2005, \$3.1 million was spent on new business opportunities and \$0.7 million for profit improvement projects. The balance of the expenditures was to support ongoing operations. New business and profit improvement projects are prioritized based on discounted rate of return analysis that exceeds the Company's targets.

Ridley expects to spend its historical average of approximately \$7.5 million during fiscal 2006 to support ongoing operations and \$1.4 million for projects that support the strategic plan and meet return criteria. All capital projects during fiscal 2006 are expected to be funded from operating cash flow.

Risk Management

The Company's businesses are subject to a number of risk factors including: commodity prices, hog prices, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulations, and the loss of facilities and inventories from fire and other perils. The Company mitigates these risks through a variety of methods. A risk management committee has taken on a higher profile in recent years for this strategically important area of the Company. Significant progress has been made in identifying risks, taking corrective actions, and encouraging a more proactive approach in the Company's manufacturing facilities to making risk management a high priority.

Environment

Ridley has a comprehensive program to oversee environmental, crisis management and health and safety matters. Management has concluded, based on existing information and applicable laws and regulations, that the amounts expended or anticipated to be expended by the Company on these matters, other than as specifically provided for, are not likely to be material to Ridley's operations or financial condition. Management is unaware of any instance of non-compliance with environmental laws and regulations that is not already being responsibly addressed.

Grains and Protein Meals

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term production requirements, the Company maintains inventories of grains and protein meals to meet production requirements.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time they are sold as part

of a feed product. The Company is subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

Seasonality and Weather Conditions

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of feed for cattle increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company manages the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). It also manages this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

Interest Rates

The Company finances a portion of its business through the use of long-term variable rate credit facilities, which exposes the Company to some risk of loss as a result of interest rate movement.

The Company has implemented a strategy to hedge interest rates on a significant portion of the total bank debt outstanding at any time. This strategy may utilize several hedging instruments, but primarily involves the use of interest rate swaps. At June 30, 2005, 91% of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to two and one-half years.

Credit

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized by a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 1.5% of the Company's total gross sales. The Company's customer base is geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based.

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender.

Insurance

The Company has significant investments in manufacturing and distribution facilities and inventory, and is subject to the risk of loss or impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental United States and Canada. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains insurance coverage sufficient to cover any foreseeable material loss. A very tight insurance market in recent years has forced the Company to pay higher premium costs.

Foreign Exchange

The Company's Canadian entities are considered to be self-sustaining and use the Canadian dollar as their functional currency. These entities enter into some purchase contracts and sales contracts denominated in U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts when warranted for material net positions. The Company at times maintains inter-company loans between U.S. and Canadian entities. In these situations, forward exchange contracts are utilized to hedge fluctuations in foreign currency translation rates.

The Company's U.S. operations are considered to be self-sustaining. Furthermore, there are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

Critical Accounting Estimates

The Company does not have estimates included in the financial statements that meet the criteria described as critical accounting estimates and has made no changes from the prior year.

Recently Adopted Accounting Standards and Reporting

Asset Retirement Obligations

On July 1, 2004, the Company adopted CICA 3110, *Accounting for Asset Retirement Obligations*. This pronouncement requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. An asset retirement is a legal obligation associated with the retirement of a long-lived tangible asset. Presently, the Company has no such obligations.

Generally Accepted Accounting Principles

On July 1, 2004, the Company adopted CICA 1100, *Generally Accepted Accounting Principles*. CICA 1100 establishes standards for financial reporting in accordance with Canadian GAAP. It describes what constitutes Canadian GAAP and its sources. The new standard eliminates industry practices as a possible source to consult. The Company's implementation of this new standard resulted in reclassification of shipping and handling costs. The Company's prior practice of netting related shipping and handling revenues and expenses in revenue on the grounds of industry practice is no longer acceptable. This standard did not have any other material effect on the consolidated financial statements.

New Segment Reporting

On July 1, 2004, the Company changed its segment reporting due to a change in the management structure and a recent acquisition in one of the segments. A segment called "Ridley Nutrition Solutions" consisting of the block operations, equine, and specialty products is reported separately due to the scope of the operations and the way the businesses will be managed. The other segment of the Company is Ridley Feed Operations consisting of both the U.S. and Canadian feed operations that are now managed as one business. This will provide a better picture of where profits are being generated within the Company. This change was adopted on a retroactive basis and the financial statements have been restated on a comparative basis.

Future Changes in Accounting Standards and Reporting

The Company expects no significant changes in 2006 to its accounting policies and presentation of financial statements for anticipated revisions to pronouncements and guidelines as issued by the CICA.

Litigation/Contingency

Lawsuits filed in Alberta, Saskatchewan, Quebec and Ontario against the Government of Canada also name Ridley Inc. and Ridley Corporation Limited as co-defendants.

The proposed representative plaintiffs are seeking to certify class actions to include all Canadian cattle farmers who allegedly suffered damage as a result of the imposition of international bans on the export of Canadian beef and cattle following the May 2003 diagnosis of BSE in a cow in Alberta. The Ontario action seeks a national class to include affected cattle farmers residing in the six remaining Canadian provinces.

The proposed representative plaintiffs seek general, aggravated and punitive damages on behalf of themselves and each of the proposed Canadian cattle farmer class members. Full particulars of the claims are yet to be provided.

Each of the four proceedings is at an early stage. Ridley Inc. is and will continue to, actively defend each of the actions.

At this time Ridley Inc. cannot determine what impact, if any, these lawsuits may have on it, or its future earnings, and no accruals have been made in respect of the actions.

The Company also has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defense of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in the financial statements.

Acquisitions

On November 1, 2004, the Company acquired the accounts receivable, inventory and specified transportation equipment of The Farmway Co-op, Inc.'s (Farmway) feed business located in Beloit, Kansas, for \$1.0 million. As part of the agreement, the Company will lease the facility and production equipment for a period of five years with an option to renew the lease on a month-to-month basis. The total lease obligation over the initial five year period is \$611,000, payable in equal monthly instalments.

On July 30, 2004, the Company acquired the assets of the livestock feed supplement business of Sweetlix, LLC (Sweetlix) for approximately \$17.6 million. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas.

Forward-Looking Information

Ridley Inc., as a company, began a Safety First initiative in fiscal 2005 in the belief that all accidents can be prevented. The Company and its operations are committed to this initiative and the objectives established for fiscal 2006.

Net earnings for fiscal 2005 ended the year with a 32% increase over fiscal 2004 but it was a very challenging year as described earlier in this report. Livestock production economics for the animal nutrition business were generally favorable in fiscal 2005 and can best be described as stable as we enter the new year. The outlook for swine producers, dairy producers and U.S. beef producers is for continued profitability while the Canadian beef sector and U.S. layer industry will be under pressure. Ridley is diversified in all the sectors, and with

normal weather patterns, we are looking forward to improved results for the Company in fiscal 2006.

Ridley Feed Operations (RFO) looks for improvement in fiscal 2006. RFO anticipates volume increases due to new distribution and a return to a normal winter-feeding season. Increased volumes, along with the continued cost containment program implemented in fiscal 2005, are a major focus for the division. Challenges entering the new year for RFO will be the U.S./Canadian border issue relating to BSE and rising health care and energy costs.

Ridley Nutrition Solutions (RNS) also expects volume increases through new distribution and a return to normal winter weather conditions. A strong cattle economy and a breeding herd expansion should provide for a good year for Ridley Block Operations. The second full year of the Sweetlix acquisition will provide for strategy synergies and improved profitability. The new Chambersburg plant will provide growth opportunities in the equine market along with continued growth of the McCauley label, and new products recently introduced. The major challenge for RNS relates to molasses supplies and prices in a tight market.

A challenge facing the Company is the lawsuits filed against Ridley Inc. and the Government of Canada. At this time the Company cannot determine what impact, if any, these lawsuits, referred to above under "Litigation Contingency," may have on future earnings. The Company will continue to strengthen its balance sheet by effectively managing working capital and investing in capital projects that add plant efficiency and provide a safe work environment.

Forward-Looking

This report contains "forward-looking" information. The forward-looking information includes statements concerning the Company's outlook for the future, as well as other statements of beliefs, plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, contemplated or implied by, such statements. These risks and uncertainties include the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, the availability and prices of raw materials and supplies, livestock disease, product pricing, the competitive environment and related market conditions, operating efficiencies, access to capital, the cost of compliance with environmental and health standards and other regulatory requirements affecting the Company's business, adverse results from ongoing litigation and actions of domestic and foreign governments. Other risks are outlined in the Risk Management section above. Unless otherwise required by applicable securities law, the Company disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions readers not to place undue reliance upon forward-looking statements.

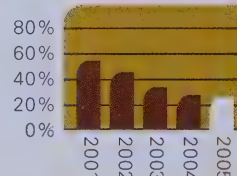
Other

Additional information relating to Ridley Inc., including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com, or on Ridley's web site at www.ridleyinc.com.

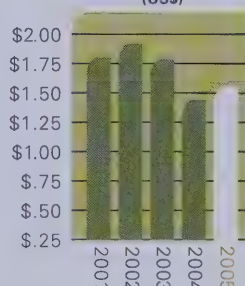
EARNINGS PER DILUTED SHARE (US\$)



DEBT TO TOTAL CAPITALIZATION

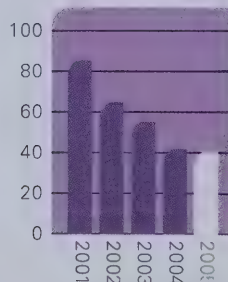


CASH FLOW* PER DILUTED SHARE (US\$)

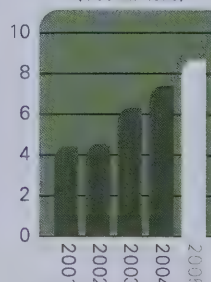


* Cash flow generated from operations before changes in non-cash working capital

BANK DEBT (US\$ millions)



CAPITAL SPENDING (US\$ millions)



2005 Consolidated Financial Statements

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28	Consolidated Balance Sheets
29	Consolidated Statements of Earnings & Retained Earnings
30	Consolidated Statements of Cash Flows
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Management Report

The accompanying consolidated financial statements of Ridley Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's estimates and judgements. The financial information presented throughout the annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that assets are safeguarded and that the financial records are accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside, unrelated directors. The Committee meets with management, as well as external auditors, on a regular basis throughout the year to review internal accounting controls, audit results and other financial reporting issues. In addition, the Audit Committee considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors and reviews the consolidated financial statements with management and the external auditors prior to recommending their approval by the Board.

The consolidated financial statements as of June 30, 2005 and 2004 for the years then ended have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.



S.J. VanRoekel
President & Chief Executive Officer

August 5, 2005



M.S. Mitchell
Chief Financial Officer

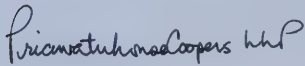
Auditors' Report

To the Shareholders of Ridley Inc.:

We have audited the consolidated balance sheets of Ridley Inc. as of June 30, 2005 and 2004 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP
Chartered Accountants
Winnipeg, Canada
August 5, 2005

Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

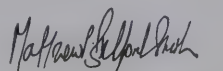
	As Of June 30	
	2005 (\$000)	2004 (\$000)
Assets		
Current Assets		
Cash and short-term deposits	1,280	3,500
Accounts receivable	26,392	25,829
Inventories (Note 6)	37,286	34,032
Prepays and other current assets	1,143	1,515
Current portion of loans receivable (Note 8)	2,421	3,818
Current assets of discontinued operations (Note 4)	-	1,318
Future income tax benefit (Note 19)	2,013	4,615
	70,535	74,627
Loans receivable, less current portion (Note 8)	3,269	4,094
Property, plant and equipment (Note 9)	95,847	86,457
Other assets	2,287	2,353
Other intangibles (Note 7)	4,026	54
Goodwill	47,411	42,937
Non-current assets of discontinued operations (Note 4)	796	2,411
	224,171	212,933
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	36,555	33,346
Income taxes payable	81	1,251
Short-term debt (Note 10)	2,298	2,524
Current portion of long-term debt (Note 11)	6,073	11,683
Current liabilities of discontinued operations (Note 4)	289	1,569
	45,296	50,373
Long-term debt, less current portion (Note 11)	32,024	27,134
Future income tax liability (Note 19)	23,624	25,518
Other accrued liabilities	4,038	3,968
Minority interest	467	364
	105,449	107,357
Shareholders' Equity		
Share capital (Note 13)	57,191	56,972
Cumulative foreign currency translation adjustment (Note 14)	7,128	4,949
Retained earnings	54,403	43,655
	118,722	105,576
	224,171	212,933

The accompanying notes constitute an integral part of the consolidated financial statements.

Approved by the Board of Directors



J.S. Keniry, Director



M.P. Bickford-Smith, Director

Consolidated Statements of Earnings and Retained Earnings

(expressed in thousands of U.S. dollars)

Year Ended June 30

	2005 (\$000)	2004 (\$000)
Revenue	478,534	474,643
Cost of sales	391,117	387,886
Gross profit	87,417	86,757
Operating expenses		
Selling, general and administrative	60,393	60,333
Amortization of property, plant and equipment	7,581	7,324
Research and development	1,191	979
Other amortization	439	493
Claim settlement (income) (Note 16)	(2,484)	—
Asset impairment loss (Note 15)	1,218	—
	68,338	69,129
Operating income	19,079	17,628
Interest expense (Note 11)	3,160	3,836
Interest income	(800)	(930)
Earnings before income taxes	16,719	14,722
Provision for income taxes (Note 19)	5,433	5,345
Minority share of net earnings	143	84
Net earnings from continuing operations	11,143	9,293
Loss from discontinued operations (Note 4)	(395)	(1,170)
Net earnings	10,748	8,123
Retained earnings, beginning of period	43,655	35,532
Retained earnings, end of period	54,403	43,655
Earnings per share from continuing operations		
— basic	0.81	0.68
— diluted	0.80	0.67
Net earnings per share		
— basic	0.78	0.59
— diluted	0.77	0.59

The accompanying notes constitute an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Year Ended June 30	
	2005 (\$000)	2004 (\$000)
Cash flow from operating activities:		
Net earnings for the period	10,748	8,123
Add (deduct) items not affecting cash:		
Amortization of property, plant and equipment	7,581	7,324
Future income taxes	431	513
Loss on sale of property, plant and equipment	2	37
Asset impairment loss	1,218	—
Loss (gain) on discontinued assets (Note 4)	251	(1,530)
Amortization	439	497
Loan impairments	948	4,708
Other items not affecting cash	130	75
Cash flow from earnings	21,748	19,747
Net change in non-cash working capital balances related to operations:		
Accounts receivable	3,351	2,824
Inventories	1,077	(812)
Prepaid expenses	537	(223)
Accounts payable, accruals and other liabilities	(859)	(684)
Income taxes payable (recoverable)	(1,561)	3,650
Net cash from operating activities	24,293	24,502
Cash flow from investing activities		
Proceeds on disposal of property, plant and equipment	640	472
Proceeds on discontinued assets (Note 4)	1,100	3,523
Business acquisitions (Note 5)	(18,191)	(4,342)
Purchase of property, plant and equipment and investments	(8,773)	(7,446)
Decrease in loans receivable	1,537	845
Net cash utilized for investing activities	(23,687)	(6,948)
Cash flow from financing activities		
Repayment of short- and long-term debt	(38,745)	(35,054)
Proceeds from short- and long-term debt	35,452	20,351
Payment of finance costs	—	(95)
Issuance of share capital	219	342
Net cash utilized for financing activities	(3,074)	(14,456)
Effect of exchange rate changes on cash	(51)	13
Increase (decrease) in cash and short-term deposits	(2,519)	3,111
Net cash and short-term deposits – beginning	3,799	688
Net cash and short-term deposits – end	1,280	3,799
Cash of discontinued operations (Note 4)	—	(299)
Net cash and short-term deposits	1,280	3,500

The accompanying notes constitute an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of presentation

These consolidated financial statements are expressed in U.S. dollars and prepared in accordance with Canadian generally accepted accounting principles (GAAP) which require Ridley Inc. ("the Company") to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. All amounts are in U.S. dollars unless otherwise specified.

Reporting currency

On July 1, 2004, the Company changed its reporting currency to the U.S. dollar. The Company decided, for financial statement reporting purposes, to effect the change to U.S. dollar reporting retroactive to July 1, 2000. In accordance with GAAP, all opening balances of assets, liabilities and shareholders' equity were translated into U.S. dollars using the exchange rate in effect on that date.

For periods subsequent to July 1, 2000, assets and liabilities of self-sustaining entities denominated in Canadian dollars or U.K. sterling are translated into U.S. dollars at the period-end exchange rate. Revenue and expenses are translated at the weighted average exchange rate for the period. Unrealized gains and losses on the net investment in self-sustaining entities are deferred and included in cumulative foreign currency translation adjustments in shareholders' equity.

Comparative financial information for all periods prior to fiscal 2005 has been restated in U.S. dollars.

2. Significant accounting policies

Basis of consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and all controlled entities.

Revenue recognition

Revenues from the sale of livestock feed, animal health supplies, and farm supplies are recognized upon shipment from the mill or facility.

Cash and short-term deposits

Cash and short-term deposits consist of cash and temporary investments with maturities of three months or less when purchased.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at amounts due from customers based on agreed-upon payment terms. The Company makes an allowance to reduce the carrying value of accounts receivable identified as uncollectible to their estimated realizable amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance for doubtful accounts based on specifically identified accounts as well as less specific reserves established based upon historical collection and write-off experience. The Company reviews its allowance for doubtful accounts on a periodic basis. Past due accounts are reviewed individually for collectibility while all remaining accounts are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories include raw materials and finished goods. Significant portions of inventories consist of commodities. Inventories are recorded at the lower of weighted average cost and net realizable value. Net realizable value is based on valuing the ingredient component at current commodity prices and deducting costs of realization.

Impaired loans

The Company makes an allowance for doubtful loans to reduce the carrying value of loans identified as impaired to their estimated realizable amount. Loans are considered impaired if, in management's view, collection is unlikely. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting the cost of realization.

Ridley Inc. 2005 Financial Statements

Property, plant and equipment and amortization

Property, plant and equipment are recorded at historical cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Buildings	40 years
Machinery and equipment	10-30 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Trucks, trailers and automobiles	5-10 years
Leasehold improvements	Term of the lease

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the assets exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and is recognized as an expense in the period of impairment. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Other assets

Other assets consist primarily of deferred financing and investments in non-related corporations and are accounted at cost. Amortization of deferred financing costs is provided on a straight-line basis over the term of the related debt.

Other intangibles

Other intangibles include trademarks, trade names, product certifications and patents.

Patents and product certifications are amortized on a straight-line basis over fifteen years. The carrying value of these assets is reviewed periodically for impairment and will be written down to their fair value by a charge to amortization expense if a decline in carrying value is identified.

Trademarks and trade names are subject to annual impairment tests and will be written down from carrying value to their fair value by a charge to amortization expense at the time a decline in fair value occurs.

Goodwill

Goodwill represents the excess cost of acquisitions over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortized but is subject to a fair value impairment test on at least an annual basis, or more frequently if events or circumstances indicate that goodwill could be impaired. Testing for impairment is accomplished mainly by determining whether the fair value of a reporting unit, based upon discounted cash flows, exceeds the net carrying amount of the reporting unit as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. In the event that the carrying amount exceeds fair value, a second step must be performed whereby the fair value of the reporting unit's goodwill must be determined if it is less than its carrying amount. Any impairment of goodwill is recognized as an expense in the period of impairment. The Company has performed the impairment test of its goodwill and has determined that no write-down for impairment was necessary.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include trade payables, outstanding checks in excess of bank balance, employee-related obligations, and accrued expense, all payable in less than one year.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using the enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the period in which the rate change occurs. When necessary, a valuation allowance is recorded to reduce future income tax assets to an estimated realizable amount that more likely than not will be realized.

Foreign currency translations

The accounts of self-sustaining entities denominated in Canadian dollars or U.K. sterling are translated into U.S. dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these entities is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date. Exchange differences on these items are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

Derivative instruments

The Company manages its exposure to changes in interest rates, ingredient prices, and foreign exchange rates through the use of derivative instruments. The Company does not use derivative instruments for trading or speculative purposes.

The Company follows AcG13-Hedging relationships. This guideline establishes the criteria for determining whether effective hedging relationships exist between derivative financial instruments and the existing assets, liabilities or anticipated transactions ("hedged items"). Derivative financial instruments that are designated as hedges and are effective are accounted for on the same basis as the hedged items. Derivative financial instruments that do not qualify for hedge accounting are recognized in the balance sheet and measured at fair value, with changes in fair value recognized in earnings.

Realized and unrealized gains or losses associated with derivative instruments used in a hedging relationship, that have been terminated or cease to be effective prior to maturity, are deferred and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any deferred amount related to the derivative instrument is recognized in earnings.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

The Company hedges its foreign currency exposures on foreign currency denominated intercompany debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. Corresponding translation losses and gains on the related foreign currency denominated debt offset translation gains and losses on the forward exchange contracts. The Company hedges its foreign currency exposure on sales and purchases denominated in foreign currency if the net position is deemed material.

The Company enters into derivative commodity instruments such as future contracts, put options and similar instruments which are used to manage the prices on commodities such as corn, soy meal, grains, molasses and other proteins ("ingredients") used in the production of animal feeds. The hedging activity is limited to the volume of commodities used in manufactured products that are supported by a firm sale price commitment. The derivatives associated with ingredients do not meet the definition of derivative financial instruments; and therefore, do not qualify for hedge accounting. Accordingly, the commodity instruments are recorded at fair value in the consolidated balance sheet with changes in fair value recorded in cost of sales.

In the normal course of business, the Company enters into various contracts to purchase commodities. These contracts qualify as normal purchases and are exempt from mark-to-market accounting treatment as the Company expects to use or sell the commodities over a reasonable period in its normal course of business. For contracts that qualify as normal purchases, no recognition of the contract's fair value is required until settlement of the contract.

Ridley Inc. 2005 Financial Statements

Employee future benefits

The Company maintains both defined benefit and defined contribution pension plans. The Company accrues its obligations for employee pension plans and the related costs, net of plan assets. The cost of pensions is actuarially determined using the projected benefits method calculated based on employee service, salary escalation and retirement age, together with the expected return on plan assets. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value.

The excess of the net actuarial gain (loss) in excess of 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans is 12 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The Company provides health care benefits for eligible retired employees and their covered dependants. The Company accrues for these benefits over the period in which employees provide service to the date of their first eligibility for such benefits. The amount of the obligation is based on actuarial valuations.

Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

The dilutive effect of outstanding stock options on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds from the potential exercise of such stock options are assumed to be used to purchase common shares.

Stock option plan

The Company has a stock option plan that is described in Note 13. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. The Company last issued new stock options on November 6, 2000.

34 3. Recently adopted accounting standards and reporting

Asset Retirement Obligations

On July 1, 2004, the Company adopted CICA 3110, Accounting for Asset Retirement Obligations. This pronouncement requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. An asset retirement is a legal obligation associated with the retirement of a long-lived tangible asset. Presently, the Company has no such obligations.

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4. Disposal of long-lived assets and discontinued operations

On December 31, 2004, the Company sold its Sioux Falls, South Dakota, property to a development company for total consideration of \$1,100,000. This property consisted of land and an abandoned feed mill. The Company recorded a \$251,000 pre-tax charge as a result of this sale.

On September 23, 2003, the Company sold key assets of its North American swine genetics business (Cotswold Swine Genetics) to a genetics company for total consideration of \$2,843,000.

The Company committed to maintain certain swine production on a sub-contract basis for a period of one year, which ended on September 23, 2004. The remaining facilities were sold to various swine producers during fiscal 2004 for total consideration of \$379,000. The wind-down was completed on September 30, 2004. An after-tax profit of \$460,000 was realized during fiscal 2005 while after-tax losses of \$933,000 were incurred in fiscal 2004.

In fiscal 2002, the European swine breeding and genetics operation (Cotswold Pig Development Co. Limited) was sold. Subsequent to the sale, the purchaser notified the Company of potential warranty and indemnification claims. The relevant parties continue to negotiate in respect of these claims. Any ultimate settlement of these claims is not expected to have a material financial impact. Remaining assets and liabilities associated with this business include a deferred receivable and an employee pension obligation. The U.K. Pension Plan was closed upon divestiture, at which time the pension obligations exceeded fund assets. At June 30, 2005, this deficit was \$179,000 (2004 – \$366,000); a reserve has been established to cover the deficit. Plan assets may fluctuate due to market conditions. In fiscal 2004, the last production facility was sold for total consideration of \$365,000. After-tax losses of \$604,000 and \$237,000 were incurred in fiscal 2005 and 2004, respectively.

The assets and liabilities of the discontinued operations are as follows:

	2005 (\$000)	2004 (\$000)
Assets		
Cash and short-term deposits	–	299
Accounts receivable	–	309
Inventories	–	653
Prepays and other current assets	–	57
Current assets of discontinued operations	–	1,318
Assets held for sale	–	1,352
Loans and deferred receivable	796	1,059
Non-current assets of discontinued operations	796	2,411
	796	3,729
Accounts payable and accrued liabilities	289	1,569

The summarized operating results of the discontinued operations for fiscal years 2005 and 2004 are as follows:

	2005 (\$000)	2004 (\$000)
Revenue	1,429	12,801
Loss from discontinued operations		
Operating gain (loss)	127	(1,345)
Asset liquidation loss	(251)	(422)
Loss before income tax	(124)	(1,767)
Income tax impact		
Income tax benefit on operating loss	–	597
Income tax on operating income	(271)	–
Total income tax impact	(271)	597
Attributed to discontinued operations	(395)	(1,170)
	Year Ended June 30	
	2005	2004
Impact of discontinued operations on earnings per share:		
– Basic	(0.03)	(0.09)
– Diluted	(0.03)	(0.08)

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The increase (decrease) in cash of discontinued operations is summarized below:

	Year Ended June 30	
	2005 (\$000)	2004 (\$000)
Net cash utilized for operating activities	(247)	(872)
Net cash from investing activities	1,100	3,574
Net cash utilized for financing activities	(1,152)	(2,442)
Increase (decrease) in cash of discontinued operations	(299)	260

5. Business acquisitions

On November 1, 2004, the Company acquired the accounts receivable, inventory and specified transportation equipment of The Farmway Co-op, Inc.'s (Farmway) feed business located in Beloit, Kansas, for \$994,000. As part of the agreement, the Company will lease the facility and production equipment for a period of five years with an option to renew the lease on a month-to-month basis. The total lease obligation over the initial five-year period is \$611,000, payable in equal monthly installments. This acquisition is recorded within the Ridley Feed Operations segment.

On July 30, 2004, the Company acquired the assets of the livestock feed supplement business of Sweetlix, LLC (Sweetlix) for \$17,587,000. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas. This operation is recorded within the Ridley Nutrition Solutions segment.

On August 11, 2003, the Company acquired the assets and business of Heartland, Inc. (Heartland), located in Bismarck, North Dakota, for an aggregate consideration of \$4,283,000.

Heartland manufactures a complete line of animal feeds. Heartland and Hubbard Feeds were previously involved in a joint venture. This acquisition is recorded within the Ridley Feed Operations segment.

These acquisitions were accounted for using the purchase method of accounting and accordingly, these consolidated financial statements include the results of operations of the acquired businesses from the dates of acquisition. Details of the net assets acquired on the basis of fair value and the consideration given were as follows:

	Sweetlix 2005 (\$000)	Farmway 2005 (\$000)	Heartland 2004 (\$000)
Assets			
Accounts receivable	1,918	283	386
Inventories	2,216	540	1,133
Prepaid and other current assets	55	-	2
Property, plant and equipment	7,388	129	2,979
Other assets	-	42	-
Other intangibles (Note 7)	4,050	-	-
Goodwill	3,386	-	563
	19,013	994	5,063
Liabilities			
Accounts payable and accrued liabilities	1,426	-	780
	1,426	-	780
Consideration			
Cash	17,587	994	4,283

The goodwill associated with the Sweetlix and Heartland acquisitions is fully deductible for income tax purposes.

6. Inventories

	2005 (\$000)	2004 (\$000)
Raw materials	18,941	16,659
Finished goods	18,345	17,373
	37,286	34,032

7. Other intangibles

	2005		2004	
	Gross carrying amount (\$000)	Accumulated amortization (\$000)	Gross carrying amount (\$000)	Accumulated amortization (\$000)
Trade names / Trademarks	2,850	–	–	–
Product certifications	1,200	73	–	–
Patents	66	17	66	12
Total	4,116	90	66	12

8. Loans receivable

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. The loans generally bear interest at rates between 4.00% and 10.00% with average terms of four years.

Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender. Current policy generally restricts the granting of loans in excess of \$500,000 to any one customer.

Loans receivable are presented net of allowances for impaired loans. The total loans receivable balance before allowances, as of June 30, 2005, is \$8,440,000 (2004 – \$16,310,000).

The following schedule provides the activity through the allowance for impaired loans during the year:

	2005 (\$000)	2004 (\$000)
Balance – beginning of year	8,398	3,901
Impairment provisions	948	4,708
Loans written off	(8,962)	(36)
Transfer from discontinued operations	2,303	–
Foreign currency translation	63	(175)
Balance – end of year	2,750	8,398

9. Property, plant and equipment

	2005		
	Cost (\$000)	Accumulated amortization (\$000)	Net book value (\$000)
Land	5,785	–	5,785
Buildings	42,209	8,191	34,018
Machinery and equipment	77,112	31,374	45,738
Computer equipment	3,331	2,768	563
Furniture and fixtures	4,192	2,783	1,409
Trucks, trailers and automobiles	6,295	4,582	1,713
Leasehold improvements	703	285	418
Construction in progress	6,203	–	6,203
	145,830	49,983	95,847

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Property, plant and equipment (continued)

	2004		
	Cost (\$000)	Accumulated amortization (\$000)	Net book value (\$000)
Land	4,918	—	4,918
Buildings	37,833	6,671	31,162
Machinery and equipment	69,222	26,174	43,048
Computer equipment	2,900	2,284	616
Furniture and fixtures	3,544	2,348	1,196
Trucks, trailers and automobiles	6,403	4,497	1,906
Leasehold improvements	678	238	440
Construction in progress	3,171	—	3,171
	128,669	42,212	86,457

10. Short-term debt

	2005 (\$000)	2004 (\$000)
Unsecured open lines of credit	2,114	—
Secured overdraft line of credit	—	2,524
Notes payable	184	—
Short-term debt	2,298	2,524

Unsecured open lines of credit

The Company has unsecured open lines of credit authorized up to \$4,000,000 (2004 – \$2,000,000). The interest rate is based on the bank's prime rate. The interest rate, including applicable margin, was 5.13% during fiscal 2005 (2004 – 3.25%). As of June 30, 2005, \$2,114,000 (2004 – nil) was outstanding.

Secured overdraft line of credit

The Company has a secured overdraft line of credit authorized up to C\$5,000,000. The interest rate is based on the bank's prime rate plus an applicable margin. The interest rates ranged from 4.00% to 4.50% during fiscal 2005 (2004 – 4.00% to 5.25%). As of June 30, 2005, the secured overdraft line of credit was not in an overdraft position (2004 – \$2,524,000 outstanding).

Notes payable

A subsidiary has unsecured notes payable on demand of \$184,000 at a 6.00% interest rate as of June 30, 2005 (2004 – nil).

11. Long-term debt

	2005 (\$000)	2004 (\$000)
Term loan facilities	5,631	16,452
Revolving loan facilities	31,503	20,870
Other facilities and debt	577	931
Capital lease obligations	386	564
	38,097	38,817
Less current portion	6,073	11,683
Long-term debt	32,024	27,134

The Company has a North American loan note subscription agreement with a syndicate of five international banks. The agreement is subordinated and bound to the general loan facility held by its affiliate, Ridley Corporation Limited. As of June 30, 2005, the multi-currency facility totalled \$49.6 million. Interest rates for loan notes issued under the Canadian facilities are based on the Canadian loan note rate. This rate is the weighted average of the annual rates quoted by the lenders under the loan note agreement. Interest rates for loan notes issued under the U.S. facilities are based on the London Inter-bank Offer Rate. A general security agreement over all property is maintained as collateral for the facility.

Interest expense incurred on long-term debt, less current portion in fiscal 2005 is \$2,304,000 (2004 – \$2,712,000).

Term loan facilities

As of June 30, 2005, the term loan facilities consist of the following:

- A facility authorized up to C\$2,000,000 (2004 – C\$6,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the Canadian loan note rate.

As of June 30, 2005, C\$2,000,000 (2004 – C\$6,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 3.91% (2004 – 3.34%).

- A facility authorized up to \$4,000,000 (2004 – \$12,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Inter-bank Offer Rate.

As of June 30, 2005, \$4,000,000 (2004 – \$12,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 4.35% (2004 – 2.76%).

The term loan facilities are repayable in quarterly principal installments commencing July 18, 2002, with a final payment of the balance of principal and interest due on October 18, 2005. The quarterly installments on the separate facilities are C\$1,000,000 and \$2,000,000, respectively.

Revolving loan facilities

As of June 30, 2005, the revolving loan facilities consist of the following:

- A facility authorized up to C\$26,000,000 (2004 – C\$36,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the Canadian loan note rate.

As of June 30, 2005, C\$19,000,000 (2004 – C\$16,000,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 3.86% (2004 – 3.34%).

- A facility authorized up to \$22,726,357 (2004 – \$38,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the London Inter-bank Offer Rate.

As of June 30, 2005, \$16,000,000 (2004 – \$9,000,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 4.55% (2004 – 2.73%).

The revolving loan facilities expire on October 18, 2007.

Other facilities and debt consist of:

A subsidiary has bank debt of \$577,000 as of June 30, 2005 (2004 – \$931,000). The weighted average effective cost of borrowing, including applicable margin, was 5.62% (2004 – 5.34%).

Capital lease obligations

Capital lease obligations consist of the present value of payments related to specified leased transportation equipment, payable at various dates through fiscal 2009.

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Summary of long-term debt and capital lease obligations

As of June 30, 2005, the aggregate amount of principal payments estimated in each of the next three fiscal years and thereafter are as follows:

	(\$000)
June 30, 2006	6,073
2007	31,978
2008	40
Thereafter	6
Total	38,097

12. Pensions and post-retirement benefits

The Company has non-contributory defined benefit pension plans covering substantially all of its U.S. employees. Benefits for salaried employees are based on years of service and the employees' level of compensation during specified periods of employment. The plan covering hourly employees generally provides benefits of stated amounts for each year of service. The Company's funding policy is consistent with statutory regulations and equals the amount deducted for income tax purposes. Prior service costs are amortized over the average future service period of active plan participants. Plan assets include equity and fixed-income securities.

The Company provides post-retirement health care benefits for U.S. employees. These benefits are supplemental to statutory provided health care costs. Post-retirement life insurance benefits are provided for a limited period of time. The components of these expenses are not shown separately as they are not material. The costs of post-retirement health care and life insurance benefits are determined under the per capita claims cost method. Under this method, the Company's obligations are fully accrued by the date the employees attain full eligibility for such benefits. The Company's funding policy is to pay covered benefits as they are incurred; these plans are unfunded.

The Company measures its accrued benefit obligations (both pension and post-retirement health care) and fair value of plan assets for accounting purposes as of April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was April 30, 2005, and the next required valuation will be April 30, 2006. The Company's funding policy with regard to the non-contributory defined benefit pension plans is to contribute to each plan an amount equal to or in excess of the annual Minimum Funding Requirements as determined by an Enrolled Actuary and in accordance with Section 412 of the Internal Revenue Code. The Company exceeded this requirement for the most recent plan year ending April 30, 2005.

The change in the financial status of the pension plans and other post-retirement obligations and amounts recognized in the consolidated financial statements as of June 30, 2005 and 2004, are:

	Pension		Other benefits	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
Accrued benefit obligation				
Balance at beginning of year	15,844	14,621	3,973	3,941
Current – service cost	1,071	1,115	358	398
Interest cost	1,004	889	203	215
Amendments	18	260	–	–
Actuarial (gain) loss	1,964	(737)	590	(248)
Benefits paid	(342)	(304)	(97)	(333)
Balance at end of year	19,559	15,844	5,027	3,973
Change in plan assets				
Fair value of plan assets at beginning of year	11,230	8,279	–	–
Actual return on plan assets	672	1,755	–	–
Employer contributions	2,050	1,500	–	–
Benefits paid	(342)	(304)	–	–
Fair value at end of year	13,610	11,230	–	–
Funded status – all plans in (deficit)	(5,949)	(4,614)	(5,027)	(3,973)
Unamortized net actuarial loss	5,777	3,405	1,773	1,212
Unamortized prior service cost	495	532	8	10
Net amount recognized	323	(677)	(3,246)	(2,751)

Amounts recognized in the Consolidated Balance Sheets are as follows:

	Pension		Other benefits	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
Other assets	1,115	540	–	–
Other accrued liabilities	(792)	(1,217)	(3,246)	(2,751)
Net amount recognized	323	(677)	(3,246)	(2,751)

The Company's net defined benefit plan expense is as follows:

	Pension		Other benefits	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
Current service cost	1,071	1,115	358	398
Interest cost	1,004	889	203	215
Expected return on plan assets	(1,157)	(979)	–	–
Amortization of prior service cost	55	38	2	53
Amortization of net actuarial loss	77	112	29	–
Net defined benefit plan expense	1,050	1,175	592	666

The significant actuarial assumptions used are as follows:

	Pension		Other benefits	
	2005	2004	2005	2004
Accrued benefit obligations as of June 30:				
Discount rate	5.75%	6.50%	5.75%	6.50%
Rate of compensation increase	3.00%	3.00%	–	–
Benefit costs for the years ended June 30:				
Discount rate	6.50%	6.25%	6.50%	6.25%
Expected long-term return on assets	9.00%	9.00%	–	–
Rate of compensation increase	3.00%	3.00%	–	–
Assumed health care cost trend rates at June 30:				
Initial health care cost trend	–	–	10.00%	8.50%
Cost trend declines to	–	–	4.50%	4.50%
Year rate reaches ultimate level	–	–	2016	2012

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effect on cost components and benefit obligations:

	One percentage point (\$000)	
	Increase	Decrease
Medical service cost and interest	135	(103)
Accumulated benefit obligation	1,163	(893)

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Defined contribution plans

The Company also provides defined contribution plans for substantially all U.S. and Canadian employees. The Company's contributions amounted to \$1,267,000 in 2005 (2004 – \$1,152,000).

As of June 30, 2005, approximately 51% (2004 – 51%) of all pension plan assets were invested in equity mutual funds and 49% (2004 – 49%) in fixed income mutual funds. The pension plan has no direct investments in Ridley Inc. nor any of its affiliates.

13. Share capital

	2005 (\$000)	2004 (\$000)
Authorized		
Unlimited number of common shares, no par value		
Issued and outstanding		
13,772,300 common shares (2004 – 13,727,300)	57,191	56,972

The number of shares issued increased during fiscal 2005 due to the exercise of stock options. As of June 30, 2005, Ridley Corporation Limited held 69.2% (2004 – 69.4%) of Ridley Inc.'s common shares.

The following is a reconciliation of the basic and diluted shares outstanding as of June 30, 2005 and 2004:

	2005	2004
Shares outstanding – basic	13,772,300	13,727,300
Incremental shares related to outstanding stock options	121,641	162,256
Shares outstanding – diluted	13,893,941	13,889,556

Stock option plan

Under the terms of the Company's stock option plan, approved by shareholders at the Annual and Special Meeting of Shareholders on November 6, 1998, options to purchase common shares of the Company may be granted by the Board of Directors or the Compensation Committee of the Board, to directors, officers, employees and service providers of the Company or its affiliates or subsidiaries. The stock option plan provides that the aggregate number of common shares, which may be reserved for issuance under the stock option plan, cannot exceed 10% of the common shares of the Company then outstanding. Weighted average exercise prices and exercise prices per share are indicated in Canadian dollars.

	2005		2004	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Stock options outstanding				
– beginning of year	429,100	7.27	500,400	7.24
Changes pursuant to				
Options cancelled	(127,500)	10.65	(4,100)	10.65
Options exercised	(45,000)	6.16	(67,200)	6.79
Stock options outstanding				
– end of year	256,600	5.79	429,100	7.27

The following stock options to purchase common shares were outstanding as of June 30, 2005:

Date granted	Exercise price	Vesting date	Expiry date	Number outstanding
Dec. 1, 1999	\$6.50	Dec. 1, 2001	Nov. 30, 2005	94,100
Nov. 6, 2000	\$5.38	Nov. 6, 2002	Nov. 6, 2006	162,500
				256,600

All options are fully vested and are subject to the terms and conditions set out in the stock options agreement.

14. Cumulative foreign currency translation adjustment

The cumulative foreign currency translation adjustment account primarily reflects the net changes in the respective carrying values of the Company's investments in self-sustaining U.K. operations due to exchange rate fluctuations since date of acquisition and the translation of entities with Canadian dollar functional currency to the U.S. dollar reporting currency.

	2005 (\$000)	2004 (\$000)
Balance – beginning of year	4,949	5,748
Effect of exchange rate variation from parent company functional currency to reporting currency	2,195	(791)
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	(16)	(8)
Balance – end of year	7,128	4,949

15. Asset impairment

In fiscal 2005, the Company recorded a \$1,218,000 (\$780,000 after tax) impairment loss related to a feed mill in northern Alberta. Due to the economic condition of the beef industry in western Canada, the Company is taking action to consolidate its production facilities in this geographic area. To that effect, the Company shut down its most remote feed mill and accordingly has reduced the carrying value of the feed mill's property, plant and equipment to fair value.

Fair value was determined based on the net realizable value that could be obtained for assets, less costs of disposal or sale. The assets are reported under the Ridley Feed Operations Segment.

16. Claim settlement

A claim settlement was received in fiscal 2005 from a supplier in the United States for \$2,484,000.

17. Financial instruments

Fair value of financial instruments

The carrying value of the Company's recognized financial instruments, which include cash, accounts receivable, accounts payable and accrued liabilities and long-term debt, approximate their fair value. Accounts payable and accrued liabilities include outstanding checks in excess of bank balance of \$6,563,000 (2004 – \$596,000).

The fair value of loans receivable is not determinable as replacement financing is not readily available in the market place.

Credit risk

The Company, in the normal course of business, is exposed to credit risk from its customers. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable and loans receivable.

Accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company performs regular credit evaluations on all of its customers.

The five largest loan balances net of allowance for doubtful loans, comprise 35% (2004 – 37%) of the total loan portfolio.

Interest rate risk

The Company enters into derivative financial instruments in order to hedge its risk against interest rate fluctuations. The Company has fixed its variable rate long-term borrowing obligations with the following outstanding interest rate swap agreements:

Notional amount	Interest rate	Term of agreement	Repricing period
U.S.\$10,000,000	2.600%	December 24, 2004 – December 24, 2005	3 months
U.S.\$10,000,000	2.835%	January 18, 2005 – January 18, 2006	3 months
C\$10,000,000	4.050%	January 18, 2006 – January 18, 2007	3 months
C\$10,000,000	4.060%	January 18, 2005 – January 18, 2008	3 months
C\$10,000,000	5.560%	January 4, 2005 – January 4, 2006	3 months

The unrealized loss on these instruments is \$472,000 as of June 30, 2005.

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Foreign exchange risk

The Company at times enters into forward foreign exchange contracts to hedge future sales denominated in foreign currencies and to hedge intercompany loans denominated in foreign currencies. The terms of the foreign exchange contracts are typically less than one year. The Company has no foreign exchange forward contracts outstanding as of June 30, 2005.

18. Commitments and contingencies

Legal actions

Lawsuits filed in Alberta, Saskatchewan, Quebec and Ontario against the Government of Canada also name Ridley Inc. and Ridley Corporation Limited as co-defendants.

The proposed representative plaintiffs are seeking to certify class actions to include all Canadian cattle farmers who allegedly suffered damage as a result of the imposition of international bans on the export of Canadian beef and cattle following the May 2003 diagnosis of BSE in a cow in Alberta. The Ontario action seeks a national class to include affected cattle farmers residing in the six remaining Canadian provinces.

The proposed representative plaintiffs seek general, aggravated and punitive damages on behalf of themselves and each of the proposed Canadian cattle farmer class members. Full particulars of the claims are yet to be provided.

Each of the four proceedings is at an early stage. Ridley Inc. is and will continue to, actively defend each of the actions.

At this time Ridley Inc. cannot determine what impact, if any, these lawsuits may have on it, or its future earnings, and no accruals have been made in respect of the actions.

Other legal matters

The Company has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defense of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

Lease commitments

The Company has entered into various leases expiring on different dates until September 30, 2024, which call for lease payments of \$5,806,000 for the rental of buildings and other operating leases. The minimum lease payments for the coming years are as follows:

	Operating leases (\$000)
June 30, 2006	1,788
2007	1,264
2008	752
2009	638
2010	307
Thereafter	1,057
Total	5,806

The Company leases vehicles, buildings, and office equipment. The total rent expense for fiscal 2005 was \$1,999,000 (2004 – \$2,501,000).

Guarantees

The Company has undertaken to guarantee the debts and obligations of a select group of customers or producers with their respective lending institutions (bank). The guarantees typically decline in amount according to the customer's repayment schedule. Failure on the part of the customer to make payment on a specified loan obligates the Company to make restitution to the bank for the amount guaranteed. Generally, the Company obtains a security interest on the customer's farm assets. This security is subordinated to the position held by the customer's bank. The following summarizes the Company's outstanding guarantees:

A series of unsecured guarantees of one major U.S. swine producer, totalling \$1,700,000, with varying expiration dates up to July 2010. The customer is required to purchase animal feed for the livestock maintained in the facilities associated with the guarantees.

Guarantees of six U.S. customers in aggregate of \$196,000 secured by an equal amount of collateral, with varying expiration dates up to November 2006. As part of the agreements, the customers must purchase their animal feed requirements from the Company.

19. Income taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following reasons:

	2005 (\$000)	2004 (\$000)
Earnings before income taxes	16,719	14,722
Combined statutory tax rate	36.0%	37.4%
Tax payable based on statutory tax rate	6,019	5,506
Non-allowable expenses	558	462
Effect of income tax rate differences	(641)	260
Effect of foreign deductions	(503)	(883)
Provision for income taxes	5,433	5,345
Current	3,718	5,019
Future	1,715	326
	5,433	5,345

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	2005 (\$000)	2004 (\$000)
Future income tax assets		
Accounts and loans receivable	948	3,312
Other assets	422	161
Liabilities	1,512	1,571
Non-capital losses carried forward	3,964	2,897
	6,846	7,941
Future income tax liabilities		
Property, plant and equipment	(17,704)	(17,506)
Goodwill and intangibles	(9,777)	(7,966)
Partnership income deferral	(976)	(2,730)
Deferred currency translation on debt	—	(642)
	(28,457)	(28,844)
Net future income tax liability	(21,611)	(20,903)
Comprised of:		
Current portion – tax benefit	2,013	4,615
Future portion – tax liability	(23,624)	(25,518)
	(21,611)	(20,903)

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There are approximately \$13,380,000 (2004 – \$11,462,000) of tax loss carry-forwards arising from the discontinued North American swine genetics business. A valuation reserve has been established for potential expiration of a portion of these tax benefits. The following reflects the amounts and related expiration period:

Year of Expiry	Tax loss (\$000)	Tax benefit (\$000)
2006	304	109
2007	361	130
2008	727	262
2009	2,335	841
2010	3,926	1,413
2011	4,954	1,783
2015	773	278
Gross	13,380	4,816
Valuation reserve		(852)
Net tax benefit		3,964

20. Statement of cash flow disclosures

The following amounts were paid on account of interest and taxes:

	2005 (\$000)	2004 (\$000)
Interest	3,058	3,820
Income taxes, net of refund	6,815	515

21. Segment information

The Company's operations are conducted in two business segments as: Ridley Feed Operations and Ridley Nutrition Solutions.

Ridley Feed Operations, which consists of both the U.S. and Canadian dry feed operations, manufactures and distributes livestock feed to customers primarily in the prairie region of Canada and the U.S. midwest. The products include a full range of complete feeds and supplements and are marketed through a dealership network as well as directly to agricultural producers.

Ridley Nutrition Solutions, which consists of the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business, McCauley Bros., Inc., manufactures and distributes low moisture blocks, specialty products, feed supplements and premium quality equine feeds.

The Company evaluates performance based on operating income. Operating income is defined as earnings before interest expense, other income, and income taxes.

An analysis of segment information is as follows:

	Ridley Feed Operations		Ridley Nutrition Solutions		Unallocated		Total	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
Revenue	399,960	426,441	78,574	48,202	–	–	478,534	474,643
Cost of sales	333,023	354,835	58,094	33,051	–	–	391,117	387,886
Gross profit	66,937	71,606	20,480	15,151	–	–	87,417	86,757
	16.7%	16.8%	26.1%	31.4%	–	–	18.3%	18.3%
Operating expenses								
Selling, G&A	46,417	51,115	10,165	6,420	3,811	2,798	60,393	60,333
Amortization	6,084	6,040	1,643	1,433	293	344	8,020	7,817
Research & development	936	522	255	457	–	–	1,191	979
Claim settlement	(2,484)	–	–	–	–	–	(2,484)	–
Asset impairment loss	1,218	–	–	–	–	–	1,218	–
	52,171	57,677	12,063	8,310	4,104	3,142	68,338	69,129
Operating income	14,766	13,929	8,417	6,841	(4,104)	(3,142)	19,079	17,628
Total assets								
– continuing operations	163,014	165,952	56,443	33,822	3,918	9,430	223,375	209,204
Property, plant and equipment								
– continuing operations	72,324	72,909	23,496	13,507	27	41	95,847	86,457
Goodwill & other intangibles								
– continuing operations	29,132	28,181	22,305	14,810	–	–	51,437	42,991
Total assets								
– discontinued operations	–	–	–	–	796	3,729	796	3,729

Revenues, property, plant and equipment, and goodwill by geographic area are as follows:

	Revenue		Property, plant and equipment		Goodwill & other intangibles	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
United States	359,419	341,212	68,687	59,903	40,956	33,461
Canada	119,115	133,431	27,160	26,554	10,481	9,530
Total	478,534	474,643	95,847	86,457	51,437	42,991

22. Comparative amounts

Prior period amounts have been reclassified to conform to current year presentation.

Ridley Inc. Corporate Directory



Corporate Office

J.S. Keniry,
Chairman

S.J. VanRoekel,
President & C.E.O.

M.S. Mitchell,
Chief Financial Officer

J.D. Richardson,
Corporate Secretary

424 North Riverfront Drive
PO Box 8500
Mankato, Minnesota, U.S.A.
56002-8500
Telephone: (507) 388 9400
Facsimile: (507) 388 9415

Auditors:

PricewaterhouseCoopers LLP

Winnipeg, Canada

Bankers:

JPMorgan Chase Bank, N.A.

Chicago, U.S.A.

Toronto, Canada

Legal Counsel:

Borden Ladner Gervais LLP

Toronto, Canada

Dorsey & Whitney LLP

Minneapolis, U.S.A.

Pitblado LLP

Winnipeg, Canada

Transfer Agent:

Computershare Trust Company of Canada Toronto, Canada

For inquiries:

Telephone: (800) 564 6253

Facsimile: (866) 249 7775

Ridley Feed Operations

Calvin Martin
Executive V.P., Ridley Inc.
Ridley Feed Operations

George "Eddie" Wells
Executive V.P., Ridley Inc.
Ridley Feed Operations

Gary Turner
General Manager,
Eastern Business Unit

Mark Nelson
General Manager,
East Central
Business Unit

Ken Petersen
General Manager,
North Central
Business Unit

Bob Revell
General Manager,
West Central
Business Unit

Kevin Levi
General Manager,
Western Business Unit

Denis Daudet
General Manager,
Alberta Business Unit

Al McKim
General Manager,
Saskatchewan
Business Unit

Jim Linaker
General Manager,
Manitoba/Daco
Business Unit

Ridley Nutrition Solutions

Bob Frost
Executive V.P., Ridley Inc.
President,
Ridley Nutrition Solutions

Ridley Feed Ingredients

Mike Hudspeth
V.P., Ridley Inc. and
Chief Operating Officer,
Ridley Feed Ingredients

Company Information

For investment analyst inquiries, please contact our Chief Financial Officer at (507) 388 9410. For copies of annual and quarterly reports, annual information forms and other disclosure documents, please contact our Corporate Secretary at (204) 956 1717.

Financial Calendar 2005 - 2006*

Following are the anticipated dates on which the Company will announce its results of operations:

First quarter report to September 30

November 8, 2005

Second quarter report to December 31

February 13, 2006

Third quarter report to March 31

May 9, 2006

Year-end results to June 30

August 21, 2006

* Subject to change

Trading Symbol: RCL on The Toronto Stock Exchange

The following trade names are owned or licensed by Ridley Inc. and its subsidiaries: Ridley, Feed-Rite, Hubbard Feeds, Wayne Feeds, Ridley Feed Ingredients, Ridley Specialty Products, Ridley Block Operations, Daco Western Canada, Farmix, CRYSTALYX[®], McCauley's[®], Post Time[®], Sweetlix[®].

www.ridleyinc.com
www.hubbardfeeds.com
www.feedrite.com
www.ridleyfeedingredients.com
www.crystalix.com
www.sweetlix.com
www.mccauleybros.com
www.beefgraze.com
www.ionolyx.com
www.equinehp.com
www.dairylyx.com

Corporate Web Sites



